

Public Utilities

FORTNIGHTLY



May 22, 1947

LIVE DEPRECIATION QUESTIONS

By Clyde Olin Fisher

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Customers Have Ideas, Too!

By John C. Faris

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Electric and Gas Operating Company Bank Loans

By John F. Childs

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No Strikes for Utilities

By Roscoe Ames

< >

Buried Gas Reserves

By C. R. Claxton, M. G. Markle, and D. V. Meiller

PUBLIC UTILITIES REPORTS, INC.
PUBLISHERS



"WE AGREE— FORD TRUCKS LAST LONGER!"

Mr. Robert S. Swanson, treasurer, S. B. Thomas, Inc., Long Island City, N. Y., wrote recently: "In our fleet of 128 Ford Trucks, 36 are over 10 years old, and 6 are 1932 models—14 years old! Their reliability and economy have given us good reason to be thankful that Ford Trucks Last Longer."



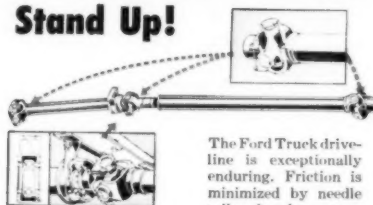
THE **6**
YOUR PICK OF POWER
THE 

Line construction and maintenance body equipment in wide variety is available on Ford Trucks through any Ford Dealer. The special Line Construction body for power, light and telephone utilities, pictured here, is by American Coach & Body Company, Cleveland, Ohio.



ONLY FORD GIVES YOU ALL THESE LONG-LIFE TRUCK FEATURES: Either of two great engines, the V-8 or the SIX, both with full pressure lubrication to all main, connecting-rod and camshaft bearings, Flightlight oil-saving 4-ring pistons, precision-type heat-resistant bearings and fast-warmup temperature control • rear axle design that takes all weight load off the shafts (¾-floating in half ton units, full-floating in all others) • heavy channel section frames, doubled between springs in heavy duty models • big, self-centering brakes, with heavy, cast drum surfaces, non-warping and score-resistant—all told, more than fifty such examples of Ford endurance-engineering to save you money.

ONE Big Reason— Ford Drive-Line Units Stand Up!



The Ford Truck drive-line is exceptionally enduring. Friction is minimized by needle roller bearings, protected by relief fittings, in all universal joints in all models. Half-ton chassis have two such joints. All other models (except 101" w.b.) have three, and, in addition, a heavy duty ball center bearing. This bearing is self-aligning—cushion-mounted in live rubber. It is leakproof, excluding dust and water. It is unaffected by frame flexing and is notably long-lived. Large-diameter tubular steel propeller shafts with forged ends are properly balanced. This assures freedom from destructive vibration and great strength without excess weight.



NATURALLY, FORD TRUCKS LAST LONGER! Latest 1946 registration figures show that 78% of all 1936 model Ford Trucks in use 9 years ago are still on the job! That's up to 15.8% better than the records of the next four sales leaders—5% better than the average of all four. More than 100 body-chassis combinations. See your Ford dealer!

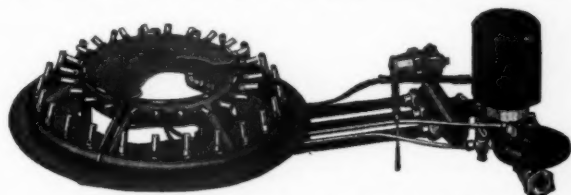
MORE FORD TRUCKS IN USE TODAY THAN ANY OTHER MAKE

BARBER Conversion Burners Employ the Best Combustion Principle Ever Devised



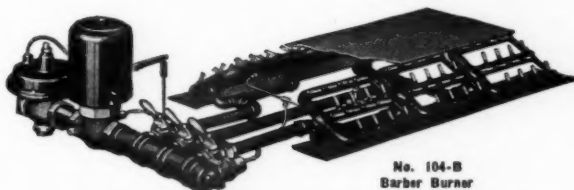
Why use a gas flame to heat a refractory, to heat in turn a fire-pot—when you can heat the fire-pot **DIRECT** with a Barber Conversion Burner? Why use a crude "spreader" principle to divert the flame? Barber's controlled flame action scores a direct hit on the combustion chamber the first time, without any intermediate elements, and the flame thoroughly "scrubs" all heating surfaces. Barber patented air-activated jets produce the hottest flame (1900°) on natural atmospheric pressure. That means top efficiency—the most from the equipment, the most from the fuel—and the closest approach to the efficiency of a new furnace designed exclusively for gas.

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Barber Burner

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Public Utilities Fortnightly



VOLUME XXXIX

May 22, 1947

NUMBER 11

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Q This magazine is an open forum for the free expression of opinion concerning public utility regulation and allied topics. It is supported by subscription and advertising revenue; it is not the mouthpiece of any group or faction; it is not under the editorial supervision of, nor does it bear the endorsement of, any organization or association. The editors do not assume responsibility for the opinions expressed by its contributors.

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MAY 22, 1947

PEOPLES UTILITY COMPANY

BILL ANALYSIS - Residential
PERIOD - Year 1946

RATE - R - 1

| Kw.Hrs. | No. Bills | Consumption in Kw.Hrs. | CUMULATIVE | | Consolidated Factor |
|---------|-----------|---------------------------|------------|---------------------------|------------------------|
| | | | No. Bills | Consumption in Kw.Hrs. | |
| 0 | 1644 | 0 | 1644 | 0 | 0 |
| 1 | 575 | 575 | 2219 | 575 | 343920 |
| 2 | 489 | 978 | 2708 | 1553 | 687265 |
| 3 | 449 | 1347 | 3157 | 2900 | 1030121 |
| 4 | 429 | 1716 | 3586 | 4616 | 1372528 |
| 5 | 413 | 2065 | 3999 | 6681 | 1714506 |
| 6 | 415 | 2490 | 4414 | 9171 | 2056071 |
| 7 | 434 | 2938 | 4848 | 12209 | 2397221 |
| 8 | 454 | 3632 | 5302 | 15841 | 2737937 |
| 9 | 418 | 3762 | 5720 | 19603 | 3078159 |
| 10 | 458 | 4580 | 6178 | 24183 | 3418043 |
| 11 | 391 | 4301 | 6569 | 28484 | 3757429 |
| 12 | 437 | 5244 | 7006 | 33728 | 4096424 |
| 13 | 469 | 6097 | 7475 | 39825 | 4434982 |
| 14 | 467 | 6538 | 7942 | 46363 | 4773071 |
| 15 | 491 | 7365 | 8433 | 53728 | 5110653 |
| 16 | 537 | 8592 | 8970 | 62320 | 5447824 |
| 17 | 542 | 9214 | 9512 | 71534 | 5784418 |
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| 19 | 541 | 10279 | 10602 | 91653 | 6455973 |
| 20 | 603 | 12100 | 11207 | 103799 | 6790935 |
| 21 | 595 | 12493 | 11802 | 116290 | 7125252 |
| 22 | 607 | 13354 | 12409 | 129644 | 7459054 |
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| 297 | 400 | 118800 | 284710 | 38729994 | 56803632 |
| 298 | 384 | 114432 | 285094 | 38844426 | 56864486 |
| 299 | 384 | 114816 | 285478 | 38959242 | 56924956 |
| 300 | 396 | 118800 | 285874 | 39078042 | 56985504 |
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| 8001 | | | 345562 | 69532486 | 69550486 |
| 9001 | 2 | 18842 | 345564* | 69551328* | 69551328* |

ILLUSTRATION OF TYPICAL BILL ANALYSIS

DATA OF THIS TYPE—analyzing a utility's bills—often discloses certain trends which are of considerable value in planning rate and promotional programs.

Note the various tabulations that have been made for each kilowatt hour—from 0 to 10,000.

Many utilities throughout the country have statistics of this type prepared for them, outside their own offices, on equipment especially designed for this specific purpose. Through this unique service your bills can be analyzed in half the usual time, and at half the usual cost.

Send for free, illustrated booklet

"THE ONE STEP METHOD OF BILL ANALYSIS"

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Pages with the Editors

THE development of a technique for an organized survey of public sentiment on nonpolitical questions seems to be a typically American contribution to extended democracy. Political voting, of course, is so ancient as to be lost in the mists of antiquity. Even where democratic government did not prevail, the ancient kings of Sparta sometimes found it advisable to obtain consent or at least the opinion of the mass population by calling for a shout from the multitude, or a clash of spears. In ancient Rome, more than a century before the birth of Christ, the secret ballot, known as the "tabella," came into use as a protective device against intimidation and corruption of open suffrage by the established nobility.

BUT these and subsequent voting refinements were all connected either directly or indirectly with the determination of mass opinion on questions of



CLYDE OLIN FISHER

government and issues of political policy. We can find no precedent even in more modern European history for systematic undertakings such as the Gallup poll or other public opinion surveys of purely personal preference. The nearest approach might be the rudimentary sampling of sentiment by people who attended fairs and expositions as to the finest stock animals or best cooked dishes.

THE public opinion survey is the natural outgrowth of an informal form of voting which also was politically inspired. Before the American Revolution, British politicians found it advisable to take "straw polls" of sentiment in Parliament before issues were finally brought up for an official vote. This practice of "straw polls" became common in both the Federal and state legislatures for practical working purposes of legislative procedure.



JOHN C. FARIS

MAY 22, 1947

CLEVELANDS

**HIGH IN TRENCHING PERFORMANCE...
LOW IN MAINTENANCE AND OPERATING COST**



**ARE THE LOGICAL TRENCHERS FOR MAIN LINE
DISTRIBUTION AND SERVICE JOBS**

CLEVELANDS High Working Capacity and Low Operation Cost is due to a number of important factors such as: Extreme ease of operation and maneuverability in the confined areas or in the open—compact full crawler mounted wheel type design—a wide range of transmission controlled speeds backed by plenty of power—and a rugged welded steel fabrication and unit type construction assuring a big day's work every day.

THE CLEVELAND TRENCHER CO.
20100 ST. CLAIR AVENUE • CLEVELAND 17, OHIO

It was the now defunct popular review magazine *Literary Digest* which brought the straw poll into its greatest prominence as a device for measuring mass opinion. This publication, it will be recalled, mailed millions of ballots on an indiscriminate basis in an effort to forecast the result of presidential elections or other major public questions. It was the very indiscriminate nature of such mass balloting which proved to be the undoing of the old *Literary Digest* poll, as many of us will recall. The 1936 *Digest* poll predicted the election of Mr. Landon as President.

THEREAFTER we witnessed the rise of the so-called "scientific" public opinion survey, which attempted to correct the shortcomings of unlimited mass straw poll systems. To date it has been fairly successful, judging by a general comparison of results with forecasts. But even the "scientific" poll has its limitations when the technique of polling public sentiment is adopted for business purposes. Business corporations want to know more about public reaction to their products or services than a categorical "yes" or "no" or "undecided."

PUBLIC utilities, by the nature of their operations, would seem to offer a most fruitful field for the employment of properly organized and executed public opinion survey programs. In this issue we present an interesting analysis of one of our nation's leading public utility company's efforts to find the most desirable and effective technique of conducting a survey of customer opinion for strictly business purposes.

JOHN C. FARIS, author of the article entitled "Customers Have Ideas, Too!" beginning page 671, is the manager of the customer business department of Union Electric Company of Missouri. He joined that company following his graduation from the University of Missouri in 1924. He took his present post in 1945 after a number of years in various accounting assignments and as systems auditor. As chairman of his company's service committee, MR. FARIS' motto is: "The best way to find out what a customer thinks is to ask him."

MAY 22, 1947



JOHN F. CHILDS

JOHN F. CHILDS, whose article on bank loans for utility companies begins on page 678, is assistant secretary, Irving Trust Company, One Wall Street, New York. He is a graduate of Trinity College (BS, '31), Hartford, Connecticut, Harvard Graduate Business School (MBA, '33), and Fordham Law School, as well as a member of the New York Bar. He is the co-author of a book on public utility securities and is now engaged in specialized analysis of public utility securities.

* * * *

CLYDE OLIN FISHER, author of the leading article on depreciation, is at present the chairman of the public utilities commission of Connecticut, which he joined as an associate member in 1941. Born in Kittrell, North Carolina, in 1891, CHAIRMAN FISHER was educated at Duke University (AB, '11), Columbia University (AM, '16), and Cornell University (PhD, '19). Prior to his public service, CHAIRMAN FISHER spent a number of years teaching and has been professor of economics at Wesleyan University since 1922.

THE next number of this magazine will be out June 5th.

The Editors



**HERE ARE MORE DETAILS
ON REMINGTON RAND'S SYSTEM OF**

**CENTRALIZED
CUSTOMER CONTACTS
AND RECORDS**

**A PLAN THAT ENABLES UTILITIES
TO BUILD GOODWILL THROUGH FASTER
HANDLING OF SERVICE REQUESTS**

CUSTOMER SERVICE RECORD

**Available Separately or as a Part of
the Complete, Coordinated System**

This speedy visible record saves as much as 70% of the usual waiting time and clerical effort in handling service requests.

During the few seconds that the Contact Clerk (or customer herself, if it's an outside call) is on the phone, the record clerk completes the whole transaction, without creating the usual multiple copy meter order. She merely records the date wanted and the customer's name and previous address on a continuous meter order form. Here, full details of the services available at that location are permanently recorded—complete address, account number, meter number and size, and name of previous occupant. There's no copying of these items, therefore no chance of errors in transcription. What's more, any mis-information given by the customer is spotted immediately—no need for call-backs.

Get full details on this record, and on the complete coordinated system of Centralized Customer Contacts and Records. Installation, accomplished by our experts without interrupting your routines, pays handsomely—in goodwill resulting from better service, and in lower operating costs. Write: Public Utilities Systems Department, 315 Fourth Avenue, New York 10.

Remington Rand

THE FIRST NAME IN BUSINESS SYSTEMS

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PREPRINTS FROM PUBLIC UTILITIES REPORTS

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GRINNELLPIPING
PROGRESS

Steam Header — 18" O.D. x $\frac{3}{8}$ " wall, 13' $8\frac{3}{4}$ " long.
Carbon-Moly Turned and Bored Forging with solid,
integral end-closure. One 12", three 10" and one 6" outlets.

Extruded Headers

Question: How can headers be made with smooth inside contours, minimum friction to flow and requiring only plain circumferential butt welds . . . and still comply with Code requirements?

Answer: By the extruded nozzle process which permits the making of any number of any size outlets.

Grinnell Extruded Nozzles are made by a patented hydraulic forming process. Outlets can be extruded up to and including full size. Inside contours are smooth, assuring minimum friction to flow. Welding ends are machined to same wall thickness as abutting pipe. Only circumferential butt welds are required.

WHENEVER PIPING IS INVOLVED

Typical of Grinnell's advanced pipe fabrication facilities is this forming process for outlets in headers which simplifies erection of piping on the job by eliminating difficult intersection type welds. They are made possible by this company's 95 years of piping experience and continuous laboratory research and experimentation.

Whenever piping is involved—Grinnell has the specialized knowledge, field engineering experience and the production facilities to handle the job from first plan to actual operation. From this one source you can get everything from a tiny tube fitting to a complete power or process piping installation.

GRINNELL COMPANY, INC. Executive Offices, Providence 1, R. I. Branch warehouses in principal cities. Manufacturing Plants: Providence, R. I.; Cranston, R. I.; Atlanta, Ga.; Warren, Ohio; Columbia, Pa.

GRINNELL

WHENEVER PIPING IS INVOLVED

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Remarkable Remarks

"There never was in the world two opinions alike."

—MONTAIGNE



WILLIAM S. PARSONS
Navy director of atomic defense.

"In the atomic energy field it is not the atom that may get out of control, it is the human."

EDITORIAL STATEMENT
*The Washington (D.C.)
Times Herald.*

"The public safety is more important than the interests of any one group of key workers, large or small."

OLIN CULBERSON
*Member, Texas Railroad
Commission.*

"Free individual enterprise is the country's greatest need for the preservation of national security and democracy."

CHARLES E. WILSON
*President, General Motors
Corporation.*

"The privilege of striking cannot be carried to the point where general strikes or industry-wide strikes cripple the economy of the nation."

ALLEN A. STOCKDALE
*Member, National Association of
Manufacturers.*

"Efficient production is just as much a safeguard of the security of the ordinary workingman's job as it is a safeguard of the profits of the big operator."

FRED MAYTAG II
President, Maytag Company.

"I believe we get only the kind of government we deserve. When we take no interest in politics and suffer bad government as a consequence we have only ourselves to blame."

EDMOND M. HANRAHAN
*Member, Securities and Exchange
Commission.*

"We cannot take the investor by the hand and point out all the pitfalls. But we can do everything possible to prevent him from being victimized by unscrupulous persons."

EDITORIAL STATEMENT
The Wall Street Journal.

"In the present state of technique, positive governmental action to check or reverse an economic trend is not a proven instrument. There is no guide to the dividing line between use and misuse."

WILLIAM C. MULLENDORE
*President, Southern California
Edison Company.*

"We are charged with a high responsibility in public service. The daily welfare of our customers is as dependent upon our able and conscientious discharge of our duty as it is upon that of any other group of public servants."



FIRST CHOICE OF *Veteran* DRIVERS



GMC trucks are preferred by veteran drivers . . . old and young. They are the choice of men who have operated commercial vehicles for years, just as they are the choice of veteran G.I.s who put GMC military vehicles through unbelievably tough hauling assignments on battlefronts all over the world. GMCs are favorites of these men who know trucks because GMCs can be counted upon to perform powerfully, economically and dependably . . . mile after mile, day after day. They are favorites because they are all-truck built, with truck axles, transmissions, clutches, frames and brakes, plus engines of the same basic design as that used in nearly 600,000 military GMCs. There's a model ideally suited to your job . . . to every hauling job, large or small.

THE TRUCK OF VALUE

GASOLINE-DIESEL

½ TO 20 TONS



GMC TRUCK & COACH DIVISION • GENERAL MOTORS CORPORATION

REMARKABLE REMARKS—(Continued)

KIRTLEY F. MATHER
*Professor of geology,
 Harvard University.*

"Scientific research has opened wide a door from which two roads diverge into the future. One road leads to death and destruction, the other to abundant life and peaceful progress."

EDITORIAL STATEMENT
Chicago Journal of Commerce.

"Government cannot bargain with labor unions, because such bargaining would imply equality between government and unions. It would raise unions to parity with the supreme power of the state."

ALBERT J. BROWNING
*Vice president, Ford Motor
 Company.*

"What we need, it seems to me, is a dynamic point of view toward the profit system—the competitive profit system which has built American industry and the American nation. We have been on the defensive too long."

RALPH MCGILL
Editor, The Atlanta Constitution.

"We are a sick nationality. The only cure is to go to work. It is really quite simple. Production is the key to national health. There isn't any necessity to go to the right or left. There is a necessity to go to work and produce."

JOHN S. COLEMAN
*President, Burroughs Adding
 Machine Company*

"Sell the idea that man is an individual, not simply a part of a group. Sell the idea that permanent security, true success, and happiness are things that no one can give you. They can be gained only through hard work, self-reliance, self-confidence, and self-respect."

EDITORIAL STATEMENT
Chicago Daily Tribune.

"Every man has the moral as well as the legal right to resign his job because he wants more pay or for any other reason, good or bad. What he hasn't the moral right to do is to conspire with his fellow workmen to quit in a body if by doing so he endangers the community."

THOMAS P. ARCHER
*Vice president, General Motors
 Corporation.*

"War controls must be entirely removed, government spending must be reduced to a practical operating basis, taxes must be adjusted to what the country can afford to spend, and not used for political aggrandizement. The government must remove itself from the field of industrial relations and collective bargaining. A fair economic climate must necessarily include a stabilized labor and wage situation."

ARTHUR W. BINNS
*President, National Home and
 Property Owners Foundation.*

"The issues are clear. We are going to have private ownership of property . . . and the liberty that goes with it, or we are going to have government intrusion into every liberty in the name of protecting society against the inherent and irremovable uncertainties of human life. There's nothing experimental about either. We know what happens in each case. But we have to decide which we want—and then act."

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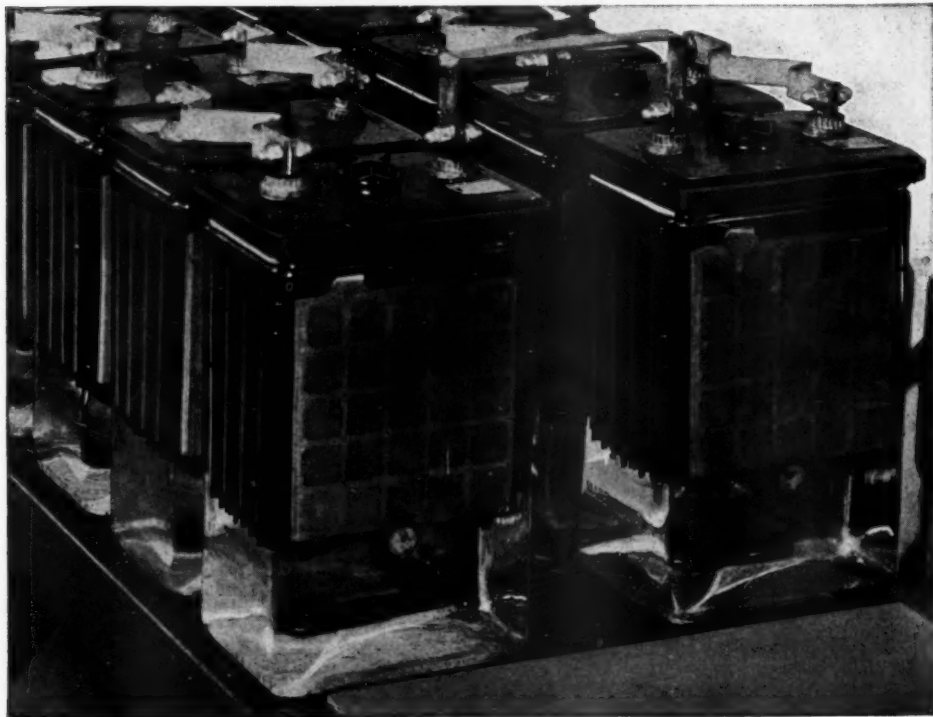
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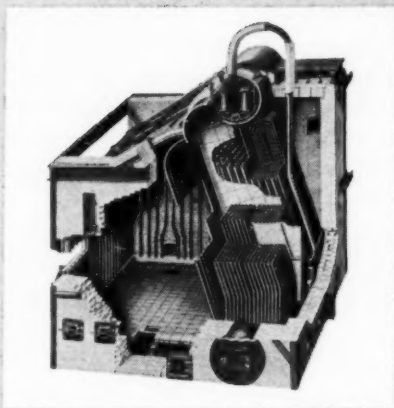
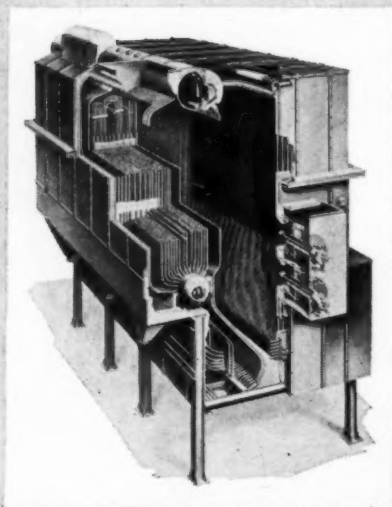
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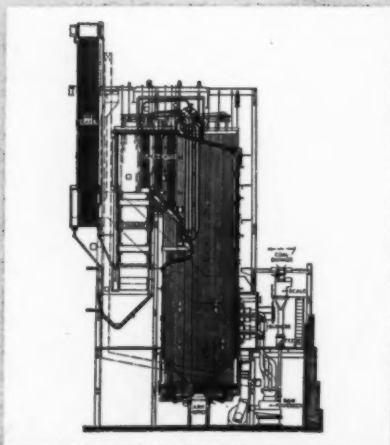


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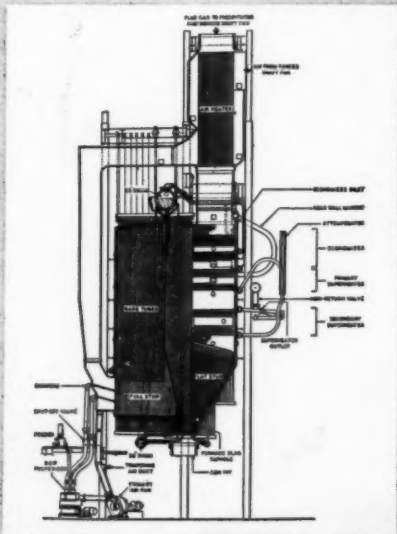
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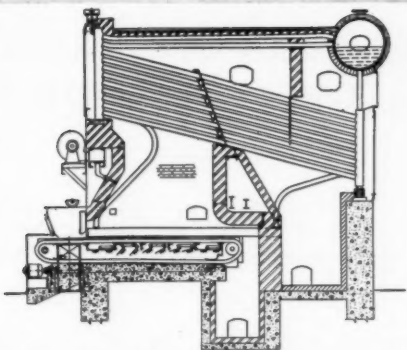


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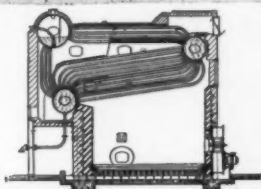
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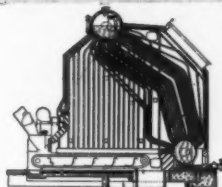
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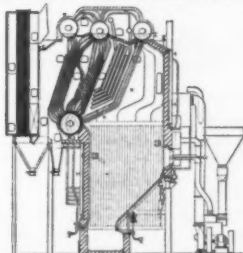
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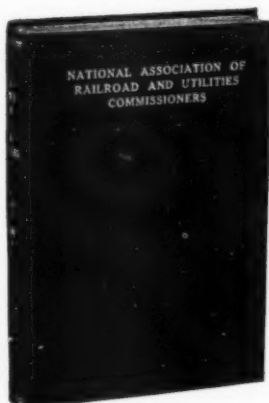
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II

Utilities Almanack



MAY



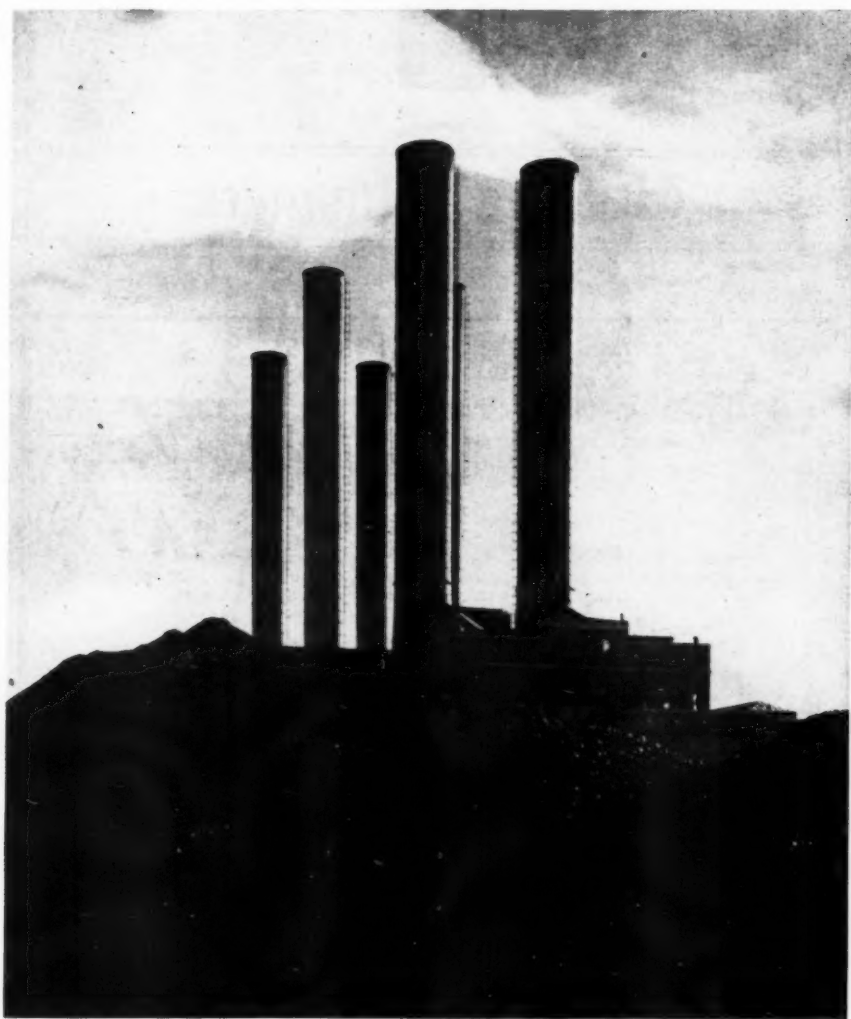
| | | |
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| 22 | T ^h | ¶ New York State Telephone Association ends meeting, Syracuse, N. Y., 1947. ¶ Wisconsin State Telephone Association ends meeting, Madison, Wis., 1947. |
| 23 | F | ¶ Canadian Natural Gas and Petroleum Association ends meeting, Hamilton, Ont., 1947. ¶ Missouri Valley Electric Association ends meeting, Davenport, Iowa, 1947. |
| 24 | S ^a | ¶ Canadian Gas Association will hold meeting, Niagara Falls, Ont., June 9-11, 1947. |
| 25 | S | ¶ Canadian Electrical Association will hold annual meeting, St. Andrews, N. B., June 18-20, 1947. |
| 26 | M | ¶ California Independent Telephone Association will hold convention, Santa Monica, Cal., June 19, 20, 1947. |
| 27 | T ^u | ¶ Liquefied Petroleum Gas Association begins convention, Chicago, Ill., 1947. |
| 28 | W | ¶ National Electrical Manufacturers Association will hold annual meeting, Hot Springs, Va., June 22-26, 1947. |
| 29 | T ^h | ¶ Oregon Independent Telephone Association and Washington Independent Telephone Association will hold meeting, Hood River, Or., June 27, 28, 1947. |
| 30 | F | ¶ Gas Appliance Short Course, University of Tulsa, ends, Tulsa, Okla., 1947. |
| 31 | S ^a | ¶ Michigan Gas Association will hold meeting, Mackinac island, Mich., July 7, 8, 1947. |



JUNE



| | | |
|---|----------------|--|
| 1 | S | ¶ National Association of Railroad and Utilities Commissioners will hold annual convention, Boston, Mass., July 15-18, 1947. |
| 2 | M | ¶ Edison Electric Institute begins annual meeting, Atlantic City, N. J., 1947. |
| 3 | T ^u | ¶ American Water Works Association will hold annual conference, San Francisco, Cal., July 21-25, 1947. |
| 4 | W | ¶ Pacific Coast Electrical Association begins annual meeting, Riverside, Cal., 1947. |



Courtesy, Northern States Power Company

The Fuel Reserves of Public Service

Public Utilities

FORTNIGHTLY

VOL. XXXIX, No. 11



MAY 22, 1947

Live Depreciation Questions

Recent trends as to the effect of the reserves on the rate base and in the treatment of the earnings on the reserve when invested in plant expansion.

By CLYDE OLIN FISHER*

CHAIRMAN, CONNECTICUT PUBLIC UTILITIES COMMISSION

IN a moment of good-natured badinage one of the characters in Owen Wister's *Virginian* addresses the hero in language that casts doubt upon the latter's paternity. Thereupon the *Virginian* replies, "When you say that, damn you, smile." Just at present the term "depreciation" as applied to utilities falls pretty much in the category of the ribald remark and epithet applied to the *Virginian*. It frequently produces more heat than light. Nevertheless, whether one can smile or not, the concept must be examined and an attempt must be made to enunciate a policy that is economically sound and so-

cially expedient. In fact, effective regulation depends upon the promulgation of a sound depreciation policy. By way of introduction, I shall hazard a few generalizations that might well be called axioms in depreciation accounting:

1. Depreciation, as defined in public utility accounting, may be said to represent the loss not restored by current maintenance which is due to all the factors causing the ultimate retirement of property.

2. At the time of retirement of depreciable utility plant the annual depreciation charges should have aggregated a sum of money which, together with the salvage recovered, should be identical with the cost of original in-

*For personal note, see "Pages with the Editors."

PUBLIC UTILITIES FORTNIGHTLY

vestment. Such an annual charge constitutes an operating expense (cost of service) which the customer should pay.

3. Depreciation is both physical and functional. Physical depreciation is more susceptible to computation and accurate appraisal than is functional depreciation. In many instances a plant, while still mechanically sound, may none the less be as obsolete as is a Model T Ford in the year 1947.

The margin of error in the estimate of functional depreciation does not relieve the utility of an obligation to make an estimate of the dollar amount involved. Despite the fact that more retirements in the past have been attributable to obsolescence than to physical wear and tear, and despite the fact that no one can prognosticate years in advance when a particular plant will become obsolete, it is none the less essential to make the best estimate possible. During the life of the plant the estimates for current depreciation should be modified if experience indicates an error in former predictions.

4. A reasonably accurate charge to depreciation is essential to the computation of net income for the year. Any overcharge to depreciation represents not admitted earnings, and any undercharge results in an overstatement of earnings.

5. In view of the impossibility of a completely accurate current estimate of depreciation for any one year, it follows that a corporation is unable to determine until years in the future what the earnings of any one year may have been. At best, therefore, earnings on a yearly basis represent an enlightened estimate. But the estimate must be made, with a full realization of the fact that it is only an estimate.

MAY 22, 1947

IT is obvious that depreciation accounting is more significant in the case of the regulated monopoly than it is in competitive industry. This follows from the fact that the regulated monopoly has its earnings determined by some agency operating under a mandate to give a fair return upon the investment made by owners. No conclusion can be reached as to the proper investment until it is determined how much of that investment has been recouped and, further, how much should be allowed as an operating expense for the current period. An industrial corporation may, if it so wishes, build up a depreciation reserve to the extent of wiping out completely the original plant investment. Such a policy will have no necessary effect upon subsequent earnings. If the utility corporation, however, has charged against its customers as an operating expense a substantial portion of the investment made, such a corporation may discover that earnings thereafter will be predicated upon the portion of investment not thus recouped.

UNTIL some twenty years ago most public utility corporations used what was known as "retirement accounting." Such accounting was frequently practiced on a wholly unscientific basis. In theory the utilities set up a retirement reserve against which was charged the investment of any particular plant that might go out of service at a given time. If scientifically computed and made a function of service life, the retirement reserve so-called would be identical to what is now designated the depreciation reserve. In practice, however, many utilities adopted a hit-and-miss policy in which

LIVE DEPRECIATION QUESTIONS

large sums were allocated to the retirement reserve in periods when earnings were good, and small sums were allocated to this reserve when earnings were low and when a proper charge might have interfered with dividend policy. In other words, the annual charge was predicated, not on the theory of restoring whatever plant had been consumed, but rather on the theory of financial expediency and the maintenance of a desired dividend policy. Obviously, the consumption of plant is no more a function of earnings than it is a function of debt amortization or the outcome of the Irish Sweepstakes or the vagaries of the vernal equinox. Because of the serious abuses involved in retirement accounting for public utilities, Federal and state commissions now are practically universal in their requirement of depreciation accounting.

BEFORE proceeding further in an examination of certain controversial issues, let me repeat dogmatically that depreciation of utility plant is a legitimate operating expense which should be recouped from customers; that the depreciation reserve at the end of the service life of plant should equal the investment in the plant; that the owners of a utility property are entitled to a fair return upon the investment made until such time as customers may have returned that investment as a component in the charges paid for service.

The fact that the depreciation reserve

has been collected from customers to compensate for the wear and tear of plant naturally raises the question as to what treatment should be given to this depreciation reserve in any rate base established for a utility corporation. For a long time there has been a controversy among students of utility regulation as to the relative merits of what is known as gross plant investment, on the one hand, and net plant investment—that is, original cost less depreciation—on the other hand. The recent trend of regulatory opinion has been in the direction of establishing as a rate base the depreciated plant investment plus working capital and materials and supplies. Perhaps I can best illustrate this by giving a numerical illustration:

ASSUME that the owners of a utility have invested \$100,000 in plant and equipment. Assume further that the plant depreciates at the rate of 2 per cent annually. It follows, therefore, assuming that the depreciation reserve is invested exclusively in plant expansion and that no additional money is put into the plant, that at the end of ten years the gross plant investment would be \$120,000, the depreciation reserve \$20,000, and the net plant investment consequently \$100,000, that is, the investment originally made by owners.

In view of the fact that the owners have invested only \$100,000 in a plant which has cost \$120,000, a plant no parts of which have as yet been retired

Q "AN industrial corporation may, if it so wishes, build up a depreciation reserve to the extent of wiping out completely the original plant investment. Such a policy will have no necessary effect upon subsequent earnings."

PUBLIC UTILITIES FORTNIGHTLY

and all parts of which still function adequately in the performance of service, it is argued very strongly by many students of regulation that the owners are not entitled to a return on the \$20,000 in the depreciation reserve which has been paid by customers in anticipation of plant retirement. A strong argument can be made in support of this position. But a correct answer is probably much more difficult than is the apparent conclusion. It is true that the owners have put only \$100,000 of their money into the plant. It is also true that the expansion costing \$20,000 has been financed by money collected from customers in anticipation of ultimate retirement of the plant used in their service.

ON the other hand, the owners of the corporation have assumed a responsibility, in their capacity as trustees, for the recoupment of the \$20,000 for the retirement of the plant for which the \$20,000 has been collected in the first instance. This responsibility of finding the money at the time needed may give some justification for a modest return to the stockholders upon the investment pending its final utilization for the purpose for which it was collected in the first instance.

In other words, the investment of the depreciation reserve in plant expansion does place upon stockholders the responsibility of finding the money for use for its original purpose when, as, and if needed. In addition to this responsibility which is imposed upon stockholders, there is some risk that the investment in plant expansion will not be justified by the financial returns on such expansion. There is inevitably a risk in any financial commitment.

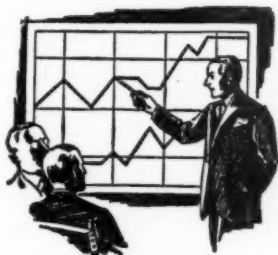
MAY 22, 1947

Should the stockholders be compensated for this risk by whatever amount of money may be appropriate in view of the nature of the hazard assumed?

THIS problem may be illustrated by a comparison of two utility plants representing identical net investment but different gross investment. Suppose one plant cost \$600,000 and has accrued a depreciation reserve of \$200,000, resulting in a net of \$400,000. Assume that another plant cost \$500,000 and has accrued a depreciation reserve of \$100,000, giving a net investment of \$400,000, or the same amount as in the first case. But the owners of the first plant have whatever risks may be involved in an investment of \$200,000 prepaid by customers whereas the owners of the second plant have assumed a risk incident to the investment of only \$100,000. Also, the first company has an obligation to find \$200,000 whenever needed to replace used-up plant, whereas the second company has the responsibility of retrieving only \$100,000 for such use.

To give the same dollar return to the two companies, therefore, would seem inappropriate and perhaps inequitable.

A competent student of utility regulation has argued strenuously for the utilization of gross plant investment as a rate base and for the credit to the depreciation reserve of a sum of money which represents the cost of borrowed money to the utility corporation. To illustrate, he would give the stockholders a return on the \$120,000 suggested in one of the illustrations mentioned above, say a return of 6 per cent, and at the same time he would credit to the depreciation reserve as an offset against



Retirement Accounting

“UNTIL some twenty years ago most public utility corporations used what was known as ‘retirement accounting.’ Such accounting was frequently practiced on a wholly unscientific basis. In theory the utilities set up a retirement reserve against which was charged the investment of any particular plant that might go out of service at a given time.”

the return to stockholders something like 3 per cent interest on the accrued depreciation reserve. He has suggested the figure 3 per cent because that is approximately the rate at which the corporation could have borrowed money by the issue of bonds. In substance, he proposes to credit to his customers, upon their advance payment in anticipation of the retirement of plant, a return comparable to what the corporation would have been required to pay had it “borrowed” this money from outsiders.

THE equity in this proposal can be supported by plausible reasoning. Whether or not the spread between 6 per cent given to stockholders and the 3 per cent given to customers in the depreciation reserve is too large, is another matter. Suppose the stockholders could have borrowed money in the open market at 3 per cent. It is just as true

that the customers might have invested at 4 or 5 per cent the money which they have prepaid in anticipation of the retirement of the plant consumed in their service. If the stockholders are to be permitted to pay 3 per cent because they could borrow elsewhere at 3 per cent, perhaps the customers have just as much justification for insistence upon a credit of 4 or 5 per cent because they could have invested elsewhere and earned 4 or 5 per cent.

Even though the thesis be accepted, I have grave doubts whether the spread suggested can be justified either on the basis of the risk that the stockholder assumes in the new investment or on the basis of the responsibility which the stockholder has assumed for the recoupment of the money invested in the depreciation reserve when it needs to be used in the replacement of the plant against the replacement of which it was collected in the first instance.

PUBLIC UTILITIES FORTNIGHTLY

DURING the last few years, two very interesting decisions have been made on this problem. The Missouri commission, in December, 1945, emphasizing the fact that stockholders assume a risk when the depreciation reserve is invested in plant expansion, has used undepreciated plant investment as the rate base and has required a credit of 3 per cent upon the depreciation reserve as an offset against the return granted on undepreciated plant.¹ The Louisiana commission,² more recently, reached a conclusion which is identical in principle with that used by Missouri, but one which represents a very much narrower spread. The Louisiana commission gave a return of 6 per cent on gross plant investment and required the utility to deduct from the dollar amount represented by such return $5\frac{1}{3}$ per cent on the depreciation reserve presently invested in plant. Although the formula differs somewhat in the two cases, the fundamental issue is identical. In substance, Missouri approves 6 per cent to the stockholder and 3 per cent to the customer. Louisiana approves 6 per cent to the stockholder and $5\frac{1}{3}$ per cent to the customer. My tentative impression is that the spread of two-thirds of one per cent in contrast to 3 per cent more nearly represents a proper amount to compensate stockholders for the risk that the investment will prove to be noncompensatory and for the responsibility of retrieving the invested funds.

ANOTHER seductive issue arises when upon examination it is found that a utility has an inadequate depreciation reserve; that is, the existing reserve is less than the depreciation that has ac-

tually occurred. A question also arises in those cases in which the depreciation reserve is excessive and substantially larger than the depreciation that has actually accrued.

The United States Supreme Court, in 1926, especially in the New York Telephone Case,³ held that an excessive amount collected from customers under the caption of depreciation belonged to the stockholders just as truly as though the stockholders had invested their own money in the first instance. The same court, in 1934, in the Lindheimer Case,⁴ reached a similar conclusion, although it did say that the collection of an excessive amount in the past served as a criterion for the resetting of the "sights" and a determination of what would constitute a proper collection in later years. The late Mr. Justice Brandeis, many years ago, in a number of decisions held that present customers could not benefit from excessive depreciation paid in the past nor could present customers be penalized by virtue of the fact that past customers had paid an inadequate amount as depreciation. In other words, water that has gone over the dam has gone and cannot be returned.

THE law in the case seems to be perfectly clear, and perhaps equity is promoted by the conclusions which the courts have reached. The difficulty comes in the application of an accepted standard and principle of law. I shall attempt to show by an illustration some of the complications involved in attempting to reach a solution under a given set of circumstances.

³ Public Utility Comrs. v. New York Teleph. Co., 271 US 23-32, PUR 1926C 740.

⁴ 292 US 151-182, 3 PUR(NS) 337.

¹ 62 PUR(NS) 129.

² (1946) 65 PUR(NS) 18.

LIVE DEPRECIATION QUESTIONS

There recently came to my attention the case of a utility corporation (I am using hypothetical figures) with a plant investment of approximately \$8,000,000 and a depreciation reserve of something like 20 per cent. An engineering study for this company revealed that on the straight-line basis, which had been accepted by the company, the depreciation reserve was inadequate to the extent of approximately \$800,000. The company admitted this deficiency and proposed to compensate for it by stepping up the rate of depreciation for the remaining years of the life of the property at such rate as to compensate for the inadequate charges in the past. If, for example, the property in question has a remaining service life of twenty years, during those twenty years the corporation would collect from customers as a depreciation charge some \$40,000 annually over and above what would have been needed had there been no deficiency in the depreciation reserve.

SHOULD such an additional sum of money be permitted as a depreciation charge collected from customers? It would seem, without going into the various qualifications and modifications that might be suggested, that the responsibility for making up this deficiency, especially if the stockholders have fared generously in the past, was

that of owners rather than that of present and future customers. Why should present customers be penalized either because former customers have been served at a loss or because stockholders in the past have fared too generously in earnings or have disbursed capital as dividends? It follows that the additional charge of \$40,000 annually should be placed "below the line" and should not be permitted as a depreciation charge to be collected from customers as an operating expense.

A further illustration presents a somewhat similar problem. A given utility (the figures again are hypothetical) within the past few years has decided to abandon a generating plant and to secure its energy from a much more efficient and modern generating station. The existing plant was built some twenty-odd years ago and at that time constituted a prudent investment and represented the best judgment of owners as to the kind of plant that should be constructed.

THE existing plant is very much like an antiquated machine. Mechanically it is perhaps as good as it ever was but functionally it is as obsolete as is the prehistoric dinosaur. At the present time the depreciation reserve against the existing plant is some \$150,000 less than the remaining investment in that plant. The abandonment of the



Q "... the consumption of plant is no more a function of earnings than it is a function of debt amortization or the outcome of the Irish Sweepstakes or the vagaries of the vernal equinox. Because of the serious abuses involved in retirement accounting for public utilities, Federal and state commissions now are practically universal in their requirement of depreciation accounting."

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obsolete plant will in general benefit the customers in that they will be able to get better service at lower price through the utilization of a modern plant. The company proposes to amortize over a period of ten or fifteen years the undepreciated investment in the existing plant; that is, to add some \$10,000 or \$15,000 a year as an operating expense for the new plant and thereby to recoup the remaining investment in the plant to be abandoned.

Should present and future customers pay for their service a price which represents only an adequate sum on the basis of present costs of getting it from an efficient plant, or should they pay in addition to this a sum of money to permit the owners to recover an investment which has proved improvident? This can be argued from both sides.

FUTURE customers undoubtedly will benefit from the substitution of the new plant and this would indicate the propriety of having them bear some of the burden in the abandonment of the obsolete plant. On the other hand, the owners of the plant have presumably for a period of twenty years been permitted to earn a sum of money which reflected not simply bond interest but, in addition thereto, a premium for the assumption of risk. If they have collected the premium for risk and then, upon the occurrence of loss, shift the loss to somebody else, have they not collected for a risk that they did not assume? A correct answer to this question perhaps falls in the category of problems that challenged the business acumen and the analytic judgment of Solomon of old.

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News Magazine.



Customers Have Ideas, Too!

How an electric company finds out firsthand what its customers think of its operations, policies, and procedures, then proceeds to initiate improvements, and how, at the same time, many requests and inquiries which might never have come to the company's attention are disposed of to the customers' satisfaction.

By JOHN C. FARIS*

“WHAT do you want to see me about?” said a housewife, peeking out of the door.

The company interviewer gave her a friendly smile. “What you think about us means a lot. This is just a neighborly visit to find that out, if you wish to tell us. How have your electric bills been?”

“Okay. Say, I never heard of anybody caring what their customers thought,” said the lady, opening the door and relaxing. “Won’t you come in and sit down?”

This little exchange was only the beginning of what turned out to be a pleasant discussion about the electric company from the customer’s viewpoint. At the conclusion of the interview fifteen minutes later the customer was no longer surprised that the company valued her opinion. She conversed freely and realized that the interviewer respected her ideas and, in parting, thanked him for the visit.

*For personal note, see “Pages with the Editors.”

Union Electric Company of Missouri has conducted over 16,000 such calls on residential customers in the St. Louis metropolitan area during the past year. Five specially trained interviewers, all company men with long experience, do this work known as the “customer research survey.” It has a twofold purpose.

The first objective is to *get* information from the customer by encouraging him to express voluntarily whatever is uppermost in his mind about the company, its service, policies, procedures, or personnel. A few carefully selected questions are used primarily to stimulate the customer’s thinking, so he will talk while the interviewer lends an attentive ear.

The second—and equally important—objective is to *give* information to the customer. The interviewer clears up, on the spot, a variety of adverse ideas which may be based on lack of understanding or misinformation about the company and its operations. In each such instance the result is obviously a

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better-satisfied customer. There are, of course, certain specified limitations beyond which the interviewer may not go in disposing of the more technical or difficult cases; these are referred later to the proper departments within the company for attention by specialists.

THERE are substantial distinctions between this "customer research survey" and what is commonly known as a "public opinion poll." In carrying out the first phase of the work, company interviewers do not ask a fixed list of questions which can be answered and checked off as "Yes," "No," or "Doubtful." The question "How have your electric bills been?" requires some thinking for the customer to answer. Other questions used only occasionally if the customer is reluctant to talk include:

"Do you feel that you have always been treated fairly by the company?"

"Have you had any trouble with your fuses recently?"

"Have you any suggestions as to how we can improve our service?"

Frequently the customer will say, "Oh, yes, that reminds me . . ."

In every case the customer is asked to verify the spelling of the name on his electric bill, an imprint of which is carried by the interviewer for every house on his route that day. A question is usually asked about the company's weekly half-hour radio program. Another is:

"Have you read any of our newspaper ads lately?"

The reception the interviewer receives is surprising. In two of three cases the customer—most often a housewife—invites him in to be seated for a comfortable, friendly chat. This

is highly desirable because better results can be attained than from a doorstep discussion. Another interesting fact is that the company's name seems to be a magic open sesame, for our men have been asked to show an identification card in only two instances out of 16,000 calls!

THE interviewer carries only a 4-inch by 6-inch card with the name and address imprint. After he leaves the premises he codes certain information on the face of the card, such as male or female, white or colored, estimated age of customer, type of dwelling, etc. Then he writes on the back of the card a verbatim report of every pertinent comment made by the customer, as nearly as possible in the customer's exact words. Then he proceeds to his next call.

The following day all the cards are reviewed in the office by a supervisor who interprets and codes them for the monthly statistical summary. Careful analyses of the various categories into which fall the greater number of comments, inquiries, or complaints clearly point up company methods or policies which should be modified to improve customer relations.

It is surprising how many people have some question or private gripe which they never take the trouble to call up or come into a company office about, but very likely relate to their neighbors, relatives, or anyone else whenever the name of Union Electric is mentioned in an otherwise casual discussion. The nature and volume of these cases have emphasized the importance of this phase of this work much beyond our original anticipations. And since such inquiries can be disposed of

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only by adequately trained company employees, it is apparent why this customer research survey far overreaches the scope of a public opinion poll by outside experts.

FOR example, 15 out of every 100 customers make some comment about their electric bills being too high (as compared with less than 5 per cent received at company offices during a year's time). Over 80 per cent of these adverse cases are explained away by the interviewer on the spot, by quickly analyzing the customer's usage. He first asks how much the monthly bill normally amounts to; then he enumerates the various lighting and appliances in use, in addition to the usual electric refrigerator. Inspection of the latter sometimes discloses a faulty door seal or other badly needed repairs, and in many cases a heavy coating of ice shows obvious failure to defrost for many days. Many people have no idea of the consumption of some appliances such as portable heaters which may operate almost continuously. Finally, resolving the monthly bill into cents per day most often results in the customer saying, "Well, I certainly didn't realize before how much I am getting for so little! I am glad you came around."

The other 20 per cent of comments on cost are the more serious cases which

are not disposed of by the interviewer himself. These are referred to the office for a complete analysis of recorded previous usage, with a subsequent telephone or field call by a representative of the customer service division who makes a full explanation to the customer.

MOST people are naturally inclined to be agreeable. They may grumble to themselves, their family, or their friends about something that displeases them; but they won't take the trouble to register a real "kick" with the company responsible. Many and varied are such circumstances uncovered by this survey. An example is the government employee who had bought a 2-family flat and converted it into a single residence, but had continued paying bills on two electric meters. A subsequent field investigation indicated that for a nominal rewiring expense all service could be rendered through one meter at a saving of nearly \$10 per year. This has now been done, to the satisfaction of a very grateful customer.

It is significant that nearly *one out of every four* interviews requires further follow-up action by the specialists of some other division or department of the company. These include correction of names or addresses, requests for repairing service wires, tree trim-



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ming, complaints about radio interference, lights flickering, noisy meters, requests for information about cooking classes, recipes, operation of electric ranges, appliance repairs, and so on *ad infinitum*. The mechanics of this operation are simple: The interviewer flags each such case on his report, which is then typed in full the next day on a follow-up form to be immediately forwarded to the proper department for appropriate action. Prompt attention assures these customers that their ideas are valued and their requests not unheeded.

WHAT has been done to improve generally undesirable conditions? The surprising 10 per cent of incorrect names on customer records was given first attention. While these had built up over a period of years, and were due to deaths and other changes in family status as well as mistakes, nevertheless an incorrect name on the monthly electric bill is bound to be a constant source of irritation. Order-taking procedure has been changed so that each application is now checked against the service location record while the customer is in the office or on the telephone; all service employees have been given a simple course in printing to insure accuracy in transcribing names. Spelling of new customers' names will be verified by mail. And to correct existing records, 2-way postal cards will be sent to all customers now on the lines. The value of this step toward improving customer relations is proved by some of the expressions of extreme annoyance to our interviewers by people whose names are improperly spelled on their bills.

MAY 22, 1947

The number of requests for outdoor meters—20 per 1,000 calls—has resulted in setting up a definite installation program by the electrical distribution department. Each customer is assured that his request will be handled in chronological order as materials become available; meanwhile, the interviewer explains that there may be some attendant wiring changes to be made at the expense of the customer. One policeman's wife explained that her husband worked the night shift and slept days, and that every month he had to be disturbed by our meter reader because the meter was in his bedroom. Needless to say, that request was given high priority!

THE question "Where do you usually pay your electric bill?" is not always used, but has brought out the urgent need for additional authorized pay stations in certain areas.

In one community with a separate company office, the final action on a serious high bill complaint was a meter test, which usually didn't satisfy the customer because meters nearly always test accurately. The survey reports proved the need for a special investigator to inspect appliances, analyze usage, test for grounds, and thoroughly dispose of these cases on the customers' premises. Thus, finding out what people really think seems to provide limitless opportunities for cementing customer relationships.

As a by-product of the regular work of the five interviewers, special spot surveys for specific purposes are made from time to time. The work proceeds as scheduled, with one or two additional questions asked for a short period. At the request of the sales depart-

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Union Electric Customer Research Survey Sample Customer Comments Included in Monthly Reports

Mr. W., about 55, said:

"I have no complaint about the electric. I pay my bills at the office and they treat me fine. Is this something new sending out men like you to see if I am satisfied? I think it is grand, it gives us a better understanding. Thanks for calling, come back again."

Economic Level: Middle 60 per cent. (Average Bill: \$3.47.)

* * *

Mrs. D., about 29, said:

"I have practically everything in the house run by electric . . . it only failed me about once in six years. We chopped down a tree and it fell on the wires . . . the wires were burning on the roof . . . the man from U.E. got here about the same time as the fire department. That was fast service."

Economic Level: Upper 10 per cent. (Average Bill: \$5.65.)

* * *

Mrs. F., about 60, said:

"My husband has been dead nineteen years and at the time I called U.E. to change the name. They kept switching me from one person to another. I believe I took in all of U.E. and finally I was referred back to the first girl. I heard her say 'My gosh, is that woman back on the line again!' That was enough for me."

Economic Level: Middle 60 per cent. (Average Bill: \$2.75.)

* * *

Mr. H., about 35, said:

"U.E. has always treated us fine. When I went into the Army, my wife got behind with the bill. She called the company and told them I was in the service and she had not received her check. They were very nice about it. They told her they would carry the account until she was able to pay. Sometime ago they did the same thing for me when I had sickness."

Economic Level: Lower 30 per cent. (Average Bill: \$1.99.)

* * *

Mrs. W. (colored), about 50, said:

"I think it is very nice of Union Electric to come to see us like this. It would be a better world to live in if other business places would do the same thing. I can't come downtown to pay my bills so wait for the collector to call. I always have the money for him when he comes. He is very nice, I never have had any trouble at all."

Economic Level: Lower 30 per cent. (Average Bill: \$2.09.)

* * *

Mrs. G., about 35, said:

"I sure wish we had a place around here to pay our bills. There sure are enough people for us to have one. I pay my bills every two months and I hate to lose that discount."

Economic Level: Middle 60 per cent. (Average Bill: \$2.74.)

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ment, alternate phrases for an electrical cooking ad were tried out on 500 housewives. Pending a necessary change in the telephone number of a company office serving 100,000 customers, a question asked of a thousand people developed that less than six out of every hundred remembered the number—the other ninety-four had to look it up every time they called, hence the change would cause little customer inconvenience. During "Edison Week" the company coöperated with a local radio station and dealers in the first television broadcasts in St. Louis. Special questions asked 1,200 customers during two weeks preceding and the two weeks immediately following the telecasts provided a measure of the coverage and some indication of customers' attitude toward the purchase of television sets.

SINCE the first objective of this survey is to report and tabulate customer opinion, the work is laid out on a systematic basis so the statistical results will be meaningful. The whole area is divided into approximately 210 census tracts which have been used by the U. S. Bureau of the Census for many years. These have been classified into three general economic levels according to the average rental values shown in the 1940 Census, as follows: the upper 10 per cent, the middle 60 per cent, and the lower 30 per cent. All of the interviewers work in the same census tract one day, a different census tract the next day, and so on. Calls also are scheduled according to population characteristics. For example, since the colored population in St. Louis is 14 per cent, of every 100 homes visited in any one month 86 are white and 14 are colored customers. Thus, the work is

planned to cover a representative cross section of all classes of customers each month. Accurate survey results are important, since statistical comparisons over a period of time will reflect trends of customer opinion as the work continues.

Selection and training of the company personnel engaged in this work are highly important. Previous service is necessary for general knowledge of the company, its organization, and its operations—the length of service of the Union Electric interviewers averages nearly twenty years.

A pleasant personality and the ability to make acquaintances readily are essential.

THE special training for survey work, regardless of previous experience, takes from four to six weeks. This includes days spent learning rate schedules and billing routines, credit and collection policies and procedures, accompanying meter readers, collectors, premise investigators, and troubleshooters in the field, and observation of meter tests and repairs in the shops. The supervisor spends the last two weeks of training with the freshman interviewer in the field, improving techniques and helping in the more unusual cases. Close supervision is never relaxed thereafter; each day all of the interviewers meet with their leader for an hour to discuss new problems and exchange ideas for further improving the productivity of their work.

The salient features of each month's survey are condensed into a 4-page printed report which is distributed to the company's officers, and to the department heads and supervisors of all groups which deal more or less direct-

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ly with the public. Somewhat wider distribution of these reports is made, specifically, to supervisors of the sales, electrical distribution, customer accounting, customer business, and advertising departments. Besides various statistical comparisons and interpretative statements, a dozen or so quotations of both typical and unusual customer comments are included. By this method the responsible personnel are kept currently informed of what we find people are thinking about us.

WHILE the customer research survey division is conducted independently, its activities are coordinated through a committee comprised of the heads of these five departments. Every effort is made to obtain the fullest benefit from this work, by keeping the responsible personnel informed on a current basis and, particularly, by coordinating overlapping functions to correct deficiencies.

It is not expected that such a continuing survey will lead us to the source of all the ills which affect customer relations adversely. Nor does it necessarily take the place of an outside public opinion poll. Union Electric has had made and continues to participate in

such outside polls for their own independent value.

So far the cost of this customer research survey has been reasonable and definite benefits have resulted. We feel that this company activity has proved itself worth while. The idea is not new. Similar surveys are being conducted in Cleveland and San Francisco, and have been for several years, although differing somewhat in detail and scope.

Although we may call at the homes of only 5 to 6 per cent of our customers in a year, the effect of any good we do is cumulative because the interviewers do not go from door to door but call on every third or fourth customer. To the extent we can change any "back fence gossip" from adverse or neutral to favorable, by just that much we have attained better feeling in the customer and his neighbor toward the company. This leads to the goal every person in the utility business today should keep uppermost in mind—to improve our position and security by selling more of our service, to the ultimate benefit of our investors, our customers, and ourselves. It is much easier to sell something to people who like you than to those who don't; truly, *a friendly customer is our best asset.*

Fallacy of the Common Man

"OUR lawmakers and jurists have too long overlooked the fact that your labor and mine, directed by us individually, should have an entirely different legal status from labor sold to consumers by paid professionals. This false conception born of typical American sentimentality has been responsible for the passing era, dedicated to that fictitious character, the common man. Let us pray that it will be replaced by an age of reason which recognizes man as a personage, and establishes his right to the enjoyment of the fruits of his own creation. Once the ownership of that right is transferred to another, it ceases to be an integral part of an individual and becomes a mere commodity."

—EDITORIAL STATEMENT,
Manufacturers Record.



Electric and Gas Operating Company Bank Loans

Matters which should be considered in formulating a long-range financial problem, including purpose of loans, advantages and disadvantages, size, restrictive provisions, and interest rates.

By JOHN F. CHILDS*

UNTIL recently banking connections for many operating companies have been handled by their holding companies. Now that the operating companies are becoming independent, they will have to establish their own connections. The importance of these has been somewhat obscured in recent years because of easy money conditions, with many banks eager to make loans to borrowers with whom they had no prior banking relations and from whom no commensurate balances were required. However, only if operating companies establish well-rounded banking relationships will they be assured of prompt, smooth, understanding service when the need for banking aid suddenly arises.

An important consideration in formulating a banking program is the extent to which a company might desire to borrow over the years to come. With this in mind, this article reviews such

factors pertaining to bank loans for electric and gas operating companies as the purposes for a loan, its advantages and disadvantages, the size of a loan, restrictive provisions, and interest rates.

In each financing operation, thought should be given principally to the best method, considering all factors over the long run, and not necessarily to the cheapest method. The industry is now in the enviable position of enjoying high standing with all classes of investors from individual to institution. Financing should be so planned that if in the future the industry should run into some unfavorable conditions, then it will still be able to be master of its own financial fate as it is today. In other words, emphasis should be given to overstrengthening the financial structure.

Using hindsight, if some of the railroad companies in the past had taken such an attitude, perhaps the financial difficulties which they have en-

*For personal note, see "Pages with the Editors."

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countered in recent years might have been avoided. A bank loan is no exception to these general principles and, in all considerations of a loan, they should be kept in mind.

IN proper proportions, however, a bank loan can serve very useful purposes, principally as follows:

1. To aid in bond or preferred stock refunding, when such securities represent too large a proportion of the capitalization. The following comment taken from an SEC release is significant in this respect: "Although it appears that the debt ratios . . . are high and that its common stock equity ratio will be comparatively low immediately after the proposed refinancing, it is anticipated that there will be a continuing improvement in these ratios as the result of the company's program of debt reduction to be effected by the semiannual retirement of the new instalment notes (bank loan) . . ."¹

2. In a similar fashion as above, to help pay the call premium in bond or preferred stock refunding in order to prevent an increase in the par value of that type of security outstanding.

3. To provide funds for construction purposes, the loan being repaid from earnings over a period of years.

4. To provide funds for construction pending long-term financing.

THE fourth category above calls for the most thought. If security market conditions are distinctly unfavorable, a bank loan may be of great aid in permitting a company to go ahead with a construction program and not penalize itself by having to obtain money through long-term financing on an unsatisfactory basis. However, se-

curity prices are very difficult to forecast, and a company should not attempt to postpone permanent financing in the hope of obtaining peak prices. If reasonable prices can be realized, it is wiser to proceed with permanent financing in order to assure that its capital structure will be kept in well-balanced proportion. For example, suppose that a company planned to pay off a bank loan by the sale of common stock, but that the market declined drastically, then it might have to resort to bond financing. In November, 1946, the Consumers Power Company raised \$16,770,000 by the sale of common stock. This financing was during a period when the market was decidedly unsettled, but considered over a long period the Consumers Power Company did receive a reasonable price for its stock. Such action represents sound judgment.

ONLY through improper use does a bank loan become burdensome and, conversely, when correctly used, it does have many distinct advantages. It is usually a cheap means of financing. It can be easily and rapidly arranged by negotiating with only a few institutions. The legal restrictions of a loan agreement can be tailored to meet the requirements of all concerned and, if the agreement has to be changed in the future, this may be done by approaching only a limited number of persons.

Even if an operating company is a subsidiary of a holding company, a loan for nine months or less is exempt from the provisions of the Public Utility Holding Company Act under § 6(b)(2)(3), provided certain other requirements are met; and a loan of ten years or less to a similarly situated

¹Holding Company Act of 1935, Securities and Exchange Commission Release No. 6472, March 14, 1946, page 8.

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operating company is exempt from competitive bidding under Rule U-50.² No matter what the maturity, it is exempt from the Securities Act of 1933 since it falls in the category of a "private sale" excluded under § 4(1).³

A BANK loan has the advantage of being very flexible as to time when the funds can be drawn upon. If a company has a construction program under consideration, it may require only a small amount of money at the beginning. If long-term financing is accomplished at the start of such a program, the company will have the full amount of money remaining idle on which interest or dividends will have to be paid. On the other hand, a bank loan can be arranged for the full amount with interest being paid only on the money borrowed, while a commitment fee, which is smaller than the interest rate, is paid on the unused portion.

This latter advantage, however, may not be as important as it first appears, after carefully weighing all the risks involved. For example, suppose a company's construction program calls for

a total of \$4,000,000 needed as follows: \$1,000,000 in six months—\$1,000,000 more in twelve months—and an additional \$2,000,000 in eighteen months. Let us assume that the company desires to be assured of the entire funds needed to complete this program and that a bank loan for \$4,000,000 is arranged immediately with a commitment fee of three-eighths of 1 per cent per annum and an interest rate of 2 per cent on all borrowings.

IF we further assume that favorable market conditions prevail at the end of eighteen months and that permanent bond financing is then done for the full amount, the total cost of the bank loan would be \$46,875.⁴ On the other hand, provided the bondable property is available, if the entire \$4,000,000 is obtained immediately through the sale of long-term 3 per cent, 30-year bonds, the total interest cost in the eighteen months' period would be \$180,000. By using a bank loan the saving would thus be \$133,125. This is true, however, only if the bonds could still be sold on the same 3 per cent basis at the end of the eighteen months' period. The total saving only represents \$4,438 ($\$133,125 \div 30$) per year over the life

² General Rules and Regulations under the Public Utility Holding Company Act of 1935—Rule U-50 (a) (2).

³ See Securities Act of 1933, Securities and Exchange Commission, Release No. 285, dated January 24, 1935, explaining what constitutes a private sale.

⁴ $\$4,000,000 \times \frac{3}{8}\% \times \frac{1}{2} + \$3,000,000 \times \frac{3}{8}\% \times \frac{1}{2} + \$2,000,000 \times \frac{3}{8}\% \times \frac{1}{2} + \$1,000,000 \times 2\% \times \frac{1}{2} + \$2,000,000 \times 2\% \times \frac{1}{2}$.



"Financing should be so planned that if in the future the industry should run into some unfavorable conditions, then it will still be able to be master of its own financial fate as it is today. In other words, emphasis should be given to over-strengthening the financial structure. Using hindsight, if some of the railroad companies in the past had taken such an attitude, perhaps the financial difficulties which they have encountered in recent years might have been avoided."

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of the 30-year bonds, which is only about one-tenth of 1 per cent of the \$4,000,000 of the bonds. Therefore, if long-term interest rates during the eighteen months' period increased from 3 per cent to 3.11 per cent, the entire saving resulting from the use of a bank loan and postponing bond financing would be wiped out. The savings would be even less if free funds raised by bond financing were invested in short-term governments. The same general principles apply if long-term financing in preferred stock or common stock rather than bonds is contemplated.

IN determining with which banks to establish relationships so as to be assured of loan accommodations, consideration must be given to the ability and willingness of banks to lend. The amount which any one bank can lend to one company is limited. In the case of national banks, it is in general terms 10 per cent of capital and surplus for unsecured loans.⁶ State banks have similar types of restrictions. The largest national banks may thus be able to lend in the neighborhood of \$25,000,000 to one company. However, owing to the fact that in smaller cities the banks tend to be smaller, a national bank in a city of approximately 500,000 population may be limited to roughly \$1,500,000. When banks are actively seeking loans they may be willing to lend up to their full legal limit. However, during periods of tight money, banks have to restrict their loans in order to accommodate all customers. Thus, a large operating company may very well have to include several large banks in a loan program.

A test for the size of a loan for a

particular company is the ability of the company to repay it under adverse business conditions. Even if it is expected that the loan will be repaid from long-term financing, it may be well to determine whether the company could pay it off over a reasonable period of years if bad market conditions prevented long-term financing. From the company's point of view this should mean repayment without disturbing dividend payments too materially, and from the bank's standpoint a certain margin of protection is desired to take care of unforeseen adverse developments that might arise. Of course, how large a loan a particular company could stand depends on such factors as the capitalization, future construction program, sinking fund, and other limiting requirements in the mortgage indentures, earnings outlook, dividend policy, etc.

As a matter of interest, in order to make a horse-back estimate for an average figure for the size of a bank loan to a primarily electric operating company, let us look briefly at the combined figures for class A and B electric companies and determine how large a loan the whole electric industry might carry.

So as to have a basis for calculation let us put the cart before the horse and assume that the entire industry arranged a loan equivalent to 10 per cent of its bonds, preferred, common, and surplus. Then the loan would be \$1,283,000,000 based on figures for December 31, 1945. If such a loan were paid off over a 10-year period, the charges would consist of annual amortization of \$128,000,000 and maximum annual interest payment of \$25,660,-

⁶ 12 USCA § 84; R.S. § 5200.



Bank Loans

"IF security market conditions are distinctly unfavorable, a bank loan may be of great aid in permitting a company to go ahead with a construction program and not penalize itself by having to obtain money through long-term financing on an unsatisfactory basis. However, security prices are very difficult to forecast, and a company should not attempt to postpone permanent financing in the hopes of obtaining peak prices."

000 figured at 2 per cent per annum.

Looking at possible sources of cash for servicing of such a loan, income remaining after all dividend payments averaged \$100,000,000 in the past five years. The annual allowance for depreciation and amortization of plant averaged \$341,000,000 in the same period, part of which might represent available cash for repayment depending upon construction requirements, mortgage indenture restrictions, etc. Common dividend payments averaged \$290,000,000 which, if necessary, could be reduced to permit repayment of the bank loan.

STATED in another way, gross income of the industry was sufficient to cover reported average fixed charges on all funded debt, and interest and amortization of this hypothetical bank loan 1.9 times in the past five years, and gross income plus depreciation

would have covered the same charges an average of 2.7 times. Such coverage represents a moderate margin of protection under present conditions.

Thus, painting a picture very crudely, it may be said that an average electric company with a normal capitalization including about 50 per cent bonds could handle a bank loan equivalent to 10 per cent of its capital and bonds. However, it should be emphasized again that each company obviously has special surrounding circumstances which might very well justify a substantially different figure from such a rough average. In certain instances, companies are restricted in the amount which they can borrow on an unsecured basis by preferred stock provisions to 10 per cent of their bonds and capital. In view of the fact that the surrounding circumstances vary so much for each company, such a restrictive provision has proved to be burdensome.

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One of the largest outstanding bank loan commitments to a primarily electric operating company was for \$65,000,000, arranged in the fall of 1946. This appears large, but it only represents about 6 per cent of the total consolidated capitalization at December 31, 1945. In relation to per cent of total capitalization, one of the largest authorized loans was made to a similar type of company in the latter part of 1946 for \$8,000,000, or about 21 per cent of the total capitalization at December 31, 1945.

A GENERALIZATION as to size of a loan for a company engaged entirely in the gas business, particularly natural gas, is more difficult because of the lack of uniformity in its operations and capitalizations. There have been some large loans to natural gas companies which do not have any funded debt whatsoever. For example, Southern Natural Gas Company arranged a \$22,500,000 bank loan in the summer of 1946 to represent the entire parent company debt. This was about equal its outstanding stock and surplus.

The legal aspects of a loan, except for one with a very short maturity up to one year, at first appear rather elaborate. As to form, loan agreements vary considerably. Some include most of the provisions in the agreement itself, with the note containing only such essential matters as amount and interest rate; others divide the provisions between the agreement and the note. Whichever form is used seems rather immaterial. As to substance, the apparent complication is partly due to the inclusion of many provisions not pertaining to matters immediately affecting the

company's operations such as the premium to be paid if the loan is repaid with proceeds obtained from another similar type of loan, and the provision preventing the company from merging, consolidating, or conveying substantially all of its assets. However, they must be included in order to cover all contingencies that might arise unexpectedly in the future.

THE currently significant provisions as a rule are not too burdensome. As a matter of fact, the mortgage indenture may adequately cover such items as restricting dividend payments approximately to earnings, and the limitation as to the amount of additional mortgage debt. They may be incorporated into the loan agreement by reference.

An important provision is the restriction of the amount of additional unsecured debt similar to the bank loan that may be incurred without the consent of the loaning banks. A limiting factor in this respect is the maximum amount that the company can satisfactorily service. This is either expressed in dollar amount or as a percentage of the total capitalization. For example, a certain company arranged a \$2,000,000 bank loan in the summer of 1946, which limited the total of such notes to 10 per cent of bonds, capital, and surplus. In dollar amount the total limitation would be approximately \$5,241,000. Complete freedom of action is always allowed the company regarding unsecured debt incurred in the ordinary day-to-day course of business such as trade obligations and accruals.

The collateralization of an operating company loan is the exception rather than the rule. However, if the loan is

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large, and the company has free bonds which it can pledge, this may be required. It is reported that of an \$8,000,000 loan arranged in the latter part of 1946, \$4,400,000 of notes with the longest maturities were secured by an equal principal amount of mortgage bonds.

To assure flexibility it is quite frequently provided that parts of the agreement can be changed if less than 100 per cent of the note holders agree. In a loan to a company in 1946 involving 14 banks, changes could be made if holders of 75 per cent of the amount of notes consented.

With regard to interest rates for bank loans, there are many factors which have an effect. Obviously, the length of maturity is very important. Furthermore, if, instead of equal annual payments, there are large or so-called balloon payments due in later years, the effect is to increase the average maturity. While the credit of most utility companies is very high at present, there is some variation in credit standing and this is reflected in the rate charged. Also, a small company may have to pay slightly higher. The size of the loan itself has a bearing on the rate. If a company desires a loan right up to its capacity to borrow, the rate may be shaded upward. The other business which a company does

with a bank may also have an effect. A bank which holds a deposit account of a company or performs some other banking services will be more inclined to lower the rate than if it did not have any collateral benefits.

BANKS have been quite willing to make 10-year serial loans at low interest rates in recent years. One of the lowest interest rates obtained was for a \$10,000,000 10-year serial loan during the first part of 1946 at an annual rate of 1.68 per cent. There were four other 10-year serial loans made to electric power and light companies at about the same time at a rate of 1.75 per cent. This was in the period when rates reached their lowest point.

Though maturity does have an important effect on the rate, there seems to be a definite limit below which a bank does not find it profitable to go no matter how short the loan. Typical was a one-year credit arrangement for a very large loan in the fall of 1946 at an annual rate of interest of $1\frac{1}{2}$ per cent.

A very few operating companies have offered serial notes publicly rather than use a bank loan. Of particular interest was the \$6,000,000 of serial notes sold by Ohio Public Service Company in May, 1946. These notes mature in 10 equal annual instalments. They were purchased at 100 by an underwriting



Q "A test for the size of a loan for a particular company is the ability of the company to repay it under adverse business conditions. Even if it is expected that the loan will be repaid from long-term financing, it may be well to determine whether the company could pay it off over a reasonable period of years if bad market conditions prevented long-term financing."

ELECTRIC AND GAS OPERATING COMPANY BANK LOANS

syndicate with an average weighted interest rate of 1.741 per cent. The underwriters reoffered the notes at an average price of 100.3858. It is questionable whether much was accomplished by the public offering, and it involved the additional expense and disadvantages of such a transaction. However, the Ohio Public Service Company serial notes are of interest because they represent a means of gauging the current open market rate for serial issues. In the natural gas field, the Northern Natural Gas Company serial debentures serve a similar purpose.

SINCE a bank may invest available funds in government bonds rather than make loans, there has been a fairly definite relationship of interest rates on loans and the return obtainable on such bonds. For the four loans mentioned above with 10-year serial maturities the average interest rate was 30 per cent more than the yield obtained on an equivalent investment in government bonds having maturities comparable with the maturities of the loans. This difference, which shows considerable variation between particular loans, is due to the additional expense to handle a loan, the fact that there is some risk factor in a loan, the lack of liquidity of a loan as compared with governments, and some of the factors mentioned above which have an effect on interest rates. As money conditions become tighter and interest rates rise, there is a tendency for the spread to increase.

Directly connected with interest rates is the commitment fee which banks charge for money not borrowed but for which they are committed to loan during a certain period. Such a

charge is quite justified. A bank does not need to actually set aside a specific amount of cash to meet each of its commitments, but its general investment policy is directly affected by its total commitments. It is required to hold at least sufficient low interest-bearing short maturities so that it will be able to meet its commitments. Expressed in terms of an annual rate, commitment fees have been in the neighborhood of one-fourth to one-half of one per cent, the rate charged any particular company depending upon most of the same factors affecting interest rates. In May, 1946, a company paid the equivalent of one-half of one per cent per annum for a commitment for one year for \$5,500,000.

INTEREST rates and commitment fees have recently shown some increase. This has been in accordance with an increase in the yield on short-term government bonds. The approximate yield on an investment in government bonds maturing each year from one to ten, equivalent to a 10-year serial loan, has been as follows:

| | |
|-----------------------|-------|
| January, 1946 | 1.27% |
| February, 1946 | 1.25 |
| March, 1946 | 1.22 |
| April, 1946 | 1.36 |
| May, 1946 | 1.42 |
| June, 1946 | 1.39 |
| July, 1946 | 1.38 |
| August, 1946 | 1.49 |
| September, 1946 | 1.53 |
| October, 1946 | 1.53 |
| November, 1946 | 1.56 |
| December, 1946 | 1.52 |
| January, 1947 | 1.48 |
| February, 1947 | 1.47 |

Further evidence of the increase in interest rates is afforded by the two serial issues publicly held which were mentioned above.

Thus, the yield to maturity for the Northern Natural Gas Company serial

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| | <i>Approximate Yield to Maturity</i> | |
|---|--|--------|
| Northern Natural Gas Co. | 2/1/46 | 2/1/47 |
| 1½% Debenture ⁶ due 5/1/51—(5 yrs., 3 mo.) | 1.37% ⁸ | |
| 1½% Debenture ⁶ due 5/1/52—(5 yrs., 3 mo.) | | 1.80% |
| Ohio Public Service Co. | 7/1/46 | 2/1/47 |
| 1.60% Note ⁷ due 6/1/52—(5 yrs., 11 mo.) | 1.95% ⁸ | |
| 1.60% Note ⁷ due 6/1/52—(5 yrs., 4 mo.) | | 2.17% |



debentures due in five years, three months, was .43 more on February 1st of this year than a year ago. The Ohio Public Service Company serial note due in five years, four months, yielded .22 more on February 1st of this year than the same note with seven months' longer maturity afforded last July 1st. In line with this change was the reported rate of 2½ per cent for a \$5,500,000 10-year serial loan to an electric company, filed with the SEC in the early part of 1947.

With the rapid expansion in loans which has occurred in the last few years, banks are becoming increasingly reluctant to make new loans to other than customers with whom they have established banking relations. This attitude will be emphasized even more if there is a further tightening in money

conditions. Therefore, operating companies becoming independent should consider all the factors involved in a bank loan and determine what banking connections they may require over the years to come. They should now formulate a definite program to build up such normal banking relationships. A first step in this direction is the establishment of deposit accounts. This will result in a friendly status between the company and the banks, and each will become familiar with the other's operations and management. The company will be well compensated in the long run through such a policy.

⁶ Rated A by Standard & Poor's Corporation and A by Moody's Investors Service.

⁷ Rated B1+ by Standard & Poor's Corporation and Baa by Moody's Investors Service. Offered to the public on May 29, 1946, at par to yield 1.60 per cent.

⁸ Yields based on bid prices.

"NEVER has the private sector of the economy been more solvent financially, and more hard up in real terms. Most farmers are out of debt, industrial concerns have large reserves, the banks are highly liquid, and many families have substantial holdings in certificates, post office savings, and other encashable investments. These reserves may impart a comforting sense of security, but what other solace do they provide in the prevailing austerity?

"The doctrine that full employment can be achieved and smoothly maintained by an adequate supply of purchasing power has failed at the first real test, and it can go on the shelf with its fellow delusion that the problem of production has been solved."

—G. L. SCHWARTZ,
Writing in *The (London) Sunday Times*.



No Strikes for Utilities

A recent report of the labor committee of the Twentieth Century Fund stresses the importance of continuing vital service of public utilities from interruption due to strikes or other labor disputes.

By ROSCOE AMES*

ARE public utilities and other vital industries in a class by themselves as far as labor relations law is concerned? Should they be given special treatment to avoid work stoppages due to strikes or lockouts which are not necessary in the general run-of-the-mill lines of business? Assuming that government intervention is required to prevent such work stoppage, should it be enforced while private management remains in control of operation, or should any ban against strikes be undertaken only after government seizure to enforce continued operation?

These are among the questions dealt with in a recent report of the labor committee of the Twentieth Century Fund, released April 14th. The importance of this report is that it is the joint

product of industrialists, labor leaders, economists, and others functioning under the chairmanship of William H. Davis, former chairman of the National War Labor Board.

Twentieth Century Fund, it may be recalled, was founded and endowed by the late Edward A. Filene to promote better "economic, industrial, civic, and educational conditions in the United States." Since 1938, all of the resources of this fund have been devoted to its own program of scientific research and public education on current economic problems.

In a word, the report finds that strikes or lockouts in industries or services essential to the health or safety of the public "cannot be tolerated." This category would, of course, include all public utility operations.

Steps to protect public welfare under such circumstances are recom-

*Labor relations analyst, Washington, D. C.

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mended in this report. The principal conclusions reached by the committee, along this line, were as follows:

1. THERE should be no mandatory or prohibitive Federal legislation against concerted withdrawal from work by employees (strikes) or against the closing of plants by employers (a lockout). The settlement of management-labor disputes in private industry should continue to be by industrial self-government through genuine collective bargaining with full freedom of contract.
2. THE fact should be recognized and accepted with reservation that, in industries or services essential to the health or safety of the people, a strike or lockout is intolerable—that interruption of production or services in such cases is not available as an instrument of collective bargaining. On the recognition of this basic fact by responsible management and responsible labor should be built, by negotiated agreement, an adequate substitute for strikes and lockouts in each industry or occupation that provides essential services, or supplies essential commodities.
3. RECENT experience shows that Congress needs to provide arrangements which will discourage both unions and employers from forcing the Executive to declare an emergency. This could be done by authorizing the President, in his discretion, to appoint emergency boards, but only on condition that the two parties agree to try out the recommendations of the board for a limited period.
4. FINALLY to safeguard the public welfare, if the failure of collective bargaining in an essential industry

or service creates a national emergency, primary reliance should be on the emergency powers of the Executive applied through the established agencies of government to maintain the essential production or services until the dispute is settled by agreement of the parties. Congress should at this time carefully consider what are the Executive powers in a national emergency that threatens the health and safety of the people; whether and to what extent those powers are effectively implemented by existing statutory provisions for Executive action in such an emergency; whether such provisions need to be supplemented now by a specific statutory definition of Executive procedure to become effective only after declaration of a national emergency growing out of a management-labor dispute; and whether the declaration of national emergency that puts such legislation into effect should be by the President, by Congress, or by conjoint action of the two.

5. IF such supplementary specific legislation is found to be desirable, it should not prohibit strikes or lockouts in private industry, but only those against government operation and seizure, and it should provide for full possession and responsible operation by the government with proper provision for "due process" and "just compensation" within the requirements of the Fifth Amendment of the Constitution.

THE report states on the subject of emergency arbitration machinery:

An appropriate instrument of prompt *prima facie* determination of just compensation to the employer and employees would be an emergency board appointed from a per-

NO STRIKES FOR UTILITIES



Benefits from Strikes

"In analyzing the general nature of strikes and the part they play in our economic system, the committee [of the Twentieth Century Fund] asserts that strikes sometimes may have actual benefits. The actual working of collective bargaining, it says, is aided by the fact that each side may ultimately resort to a stoppage of work."

manent panel of arbitrators maintained by the Conciliation Service. The *prima facie* determination would, of course, be subject to judicial review at the instance of either party. In no case should the government's operating agency be authorized to fix terms and conditions of employment after seizure by unilateral negotiations with either the employer or the employees.

In all questions of new laws affecting labor-management relations, the committee asserts that "our system of industrial production . . . is now based on a broad foundation of successful collective bargaining," and stresses as a fundamental principle: "A basic criterion of the value of any proposed legislation is that it should be helpful to genuine collective bargaining, not harmful."

Warning against any attempt—such as proposed compulsory arbitration—to put into law a fixed and exact method of dealing with a crisis brought about by the threat of a strike or lock-out in an essential industry, the committee says that "legislation intended to avert disaster in such emergencies may defeat its own ends. Any substitute preëstablished by law is almost certain, in the last fifteen minutes of

the discussion, to appear to one party or the other as a haven of refuge, more desirable than has been developed at the bargaining table. If that happens, final responsibility is destroyed. The parties do not have to accept the consequences of their own decision."

THE committee also points out that "any such preëstablished substitute for agreement does not settle the grievance," leaving the possibility that the underlying differences may rise again to plague both sides at some later date.

Types of industry which should be given special consideration because of their vital effect upon the general public welfare are listed by the committee as including (1) privately owned community services (gas, electric, and water utilities), the uninterrupted operation of which management and labor have more or less clearly recognized as a public responsibility; (2) transportation and communication services (railroads, transit, bus, telephone, and telegraph service) of national extent; and (3) industries that supply basic

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materials essential to the functioning of our society.

Interruptions of services in the first category "create local community emergencies and should be left to local authorities," the committee said, while those in the last two are national in scope and must be so treated.

As a long-term solution of the problem presented in the first two categories, the committee declares, "the suggestion has been made that workers be granted a special statute in return for putting their right to strike in escrow and substituting arbitration; that these workers be guaranteed wages, pensions, vacations, and assurances of steady employment that are a step above the average for similar skills in the labor market in which they are employed. Such a special status, it is suggested, not only would avoid the grievances due to substandard conditions of employment, but also would be concrete recognition by the citizens that these workers are participants in a basic public undertaking and would evoke a correspondingly higher sense of responsibility."

IN analyzing the general nature of strikes and the part they play in our economic system, the committee asserts that strikes sometimes may have actual benefits. The actual working of collective bargaining, it says, is aided by the fact that each side may ultimately resort to a stoppage of work.

Collective bargaining processes, the committee declares, "lose all color of reality if the workers have not the right to reject management's offer and quit, or if management has not the right to refuse the workers' terms and close the plant. It is the overhanging pressure of

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this right to strike or to lockout that keeps the parties at the bargaining table and fixes the boundaries of stubbornness in the bargaining conferences.

"Strikes teach all the parties the value of compromise. After open warfare, organized labor seeks to avoid demands for impossible gains; the rank and file learn not to demand more than they are willing to strike for; and management finds out the cost of saying 'no' on issues on which it could better afford to give in."

Urging that government keep out of industrial disputes as much as possible, the committee holds that workers and employers should be encouraged to develop experience and responsibility in settling their own affairs.

"The relations of our own labor and management—their capacity for industrial self-government, their ability to work together for a common end," the committee declares, "assume central importance not only for our immediate national welfare, but even as a determinant for the world-wide choice between material abundance and stable peace, on the one hand, or poverty, revolution, war, and destruction, on the other."

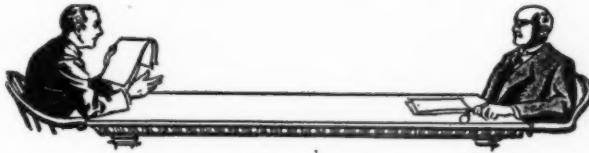
As an aid in settling disputes before they may reach the crisis stage, the committee says that a conciliator often can perform a useful service, "although the warning should be given that untimely or inept conciliation can do more harm than good." Recognizing the value of such service, the committee expresses belief that "the Federal Conciliation Service should always have the careful and sympathetic consideration of Congress, and that it should be adequately supported by appropriation."

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Other members of the committee submitting the report included: William L. Chenery, publisher, *Collier's* weekly; Howard Coonley, board chairman, Walworth Company, and formerly president, National Association of Manufacturers; Clinton S. Golden, lecturer on labor problems, Harvard Graduate School of Business Administration, and formerly vice president, United Steel Workers of America, CIO; Sumner H. Slichter,

Lamont professor, Harvard University; Robert J. Watt, international representative, American Federation of Labor; and Edwin E. Witte, professor of economics, University of Wisconsin.

The report, entitled "Strikes and Democratic Government," was announced as the first in a series being prepared by the committee under the heading, "Labor Relations in a High Level Economy."



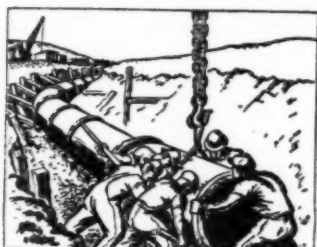
Earnings Decline

"A startling decline in the share of national income going to stock- and bondholders has occurred since 1939. In the loud debate over whether wages are high enough, the position of investors has largely escaped notice, even among members of this group.

"Several factors have combined to bring about this sharp contraction in the share of the nation's income going to investors. Bondholders are not only limited by the terms of their securities to a fixed rate of return, but their dollar income has been reduced by wholesale refunding of outstanding obligations into lower coupon issues, thanks to the easy money policy of the government. Returns going to stockholders have been limited by excess profits taxes upon corporations and by the fact that corporations have been paying out in dividends a much smaller proportion of earnings than they did under more normal conditions. Uncertainties of the war and reconversion periods and heavy working and fixed capital needs have fostered conservative dividend policies.

"Investors are thus receiving a much smaller part of the national income today than they did before the war. They are fully justified in raising the question whether this trend is in the public interest. For, as the share of the investor in the national income declines, there is less incentive for saving and for investing in industry the large amounts of new capital required to finance a greatly expanded volume of production and distribution."

—EDITORIAL STATEMENT,
The Journal of Commerce.



Buried Gas Reserves

A new technique for storing natural gas at pressure in buried pipes, which promises interesting results.

By C. R. CLAXTON, M. G. MARKLE, D. V. MEILLER*

Editorial Statement

THE major problem in gas distribution from the very beginning of the manufactured gas industry in the Nineteenth Century was, and still is, the maintenance of storage and pressure facilities. With the advent of far-extended pipe lines, which bring natural gas supply to markets, thousands of miles away from the production source, this problem has become more acute.

In addition to the more serious attempts to fill in peak demands which tax capacity of the pipe lines to supply, during cold snaps and other abnormal load periods, the industry has long struggled with the secondary problem of maintaining emergency reserves at strategic points throughout the distribution system.

Unlike electric power supply, with its

elasticity—provided by cutting generating facilities in and out of service as load requirements demand—gas must be stored physically. This is true of both manufactured and natural gas.

Somewhat spectacular and ingenious attempts to cope with this problem of storing a reserve supply are seen in the proposals to store gas underground in old empty wells which may exist in the vicinity of the distribution and of the pipe lines. Again, there is the technique, somewhat hazardous, but proved to be workable, of storing liquid natural gas in large pressure tanks on the surface of the ground—gas which has been reduced to liquid form under pressure for storage purposes and capable of being released in gaseous form when the reserve is needed. Less spectacular, but still an interesting and promising innovation, is the idea of storing natural gas in buried pipes under moderate pressure. This technique is less spectacular because it does not presume to cope with the major problems of storing a reserve sufficient to relieve peak

*Positions of the authors are respectively as follows: engineer process division, Stone & Webster Engineering Corporation; gas engineer, Public Service Company of Northern Illinois; senior design engineer, Public Service Company of Northern Illinois.

BURIED GAS RESERVES

demands (such as storing up gas during the off-peak warm weather periods for use during the colder periods). So far, the buried pipe storage technique is aimed simply at providing an intra-system reserve on an emergency basis, so as to balance distribution or take care of distribution accidents. A description of this technique by Messrs. Claxton, Markle, and Meiller follows:

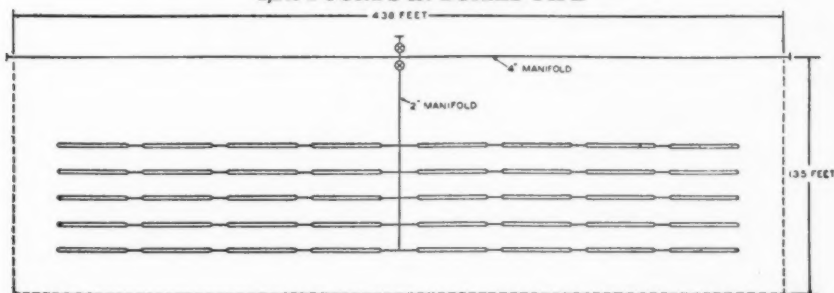
THE Public Service Company of Northern Illinois recently placed in service near Kankakee, Illinois, a natural gas storage installation of a design developed in its organization, consisting of 50 lengths of steel pipe, each 40 feet long and 24 inches in diameter, and in each of which 25,000 cubic feet of natural gas is stored at 2,240 pounds per square inch, the 50 lengths having a total storage of 1,250,000 cubic feet.

This installation, while useful and necessary for continued reliable gas service to the Kankakee area, is also a "pilot plant" installed to demonstrate

the advantages and determine any faults preparatory to making a much larger installation. The gas load of Kankakee and adjacent communities, with 9,200 customers, is increasing rapidly because of the increasing population, greater use of gas for space heating, and an influx of new industries.

The normal supply of gas to the area is through a high-pressure distribution feeder main from Matteson, Illinois, some 30 miles north and east of Kankakee. The distribution in Kankakee area consists of a central low-pressure natural gas system, where a carbureted water gas plant with two 6-foot sets and a half-million cubic-foot commercial lift type holder are available for emergency use of peak shaving for the low-pressure system only, there being no compressors for returning gas to the high-pressure system serving the outlying areas and industrial customers. To assure, in the event of a temporary failure of the feeder main from Matteson, an emergency supply for high-pressure customers and additional protec-

GENERAL LAYOUT FOR STORAGE OF NATURAL GAS AT
2,240 POUNDS IN BURIED PIPE



FORTY 40 FOOT LENGTHS OF SPECIAL 24 INCH PIPE

NOMINAL STORAGE CAPACITY 1,000,000 STANDARD CUBIC FEET

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PLACING SPECIAL PIPE IN THE TRENCH

tion for the low-pressure system, the additional storage of 1,250,000 cubic feet in buried pipe was installed on the opposite side of the city from the normal supply through the feeder main from Matteson. The storage together with the water gas plant and the lift

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type holder can supply the maximum load of the area for the length of time which might be required to make emergency repairs to the feeder main from Matteson.

Of particular interest is the effect, in this type of storage, of the com-

BURIED GAS RESERVES

compressibility factor or the deviation from the laws of perfect gases of the natural gas stored. Fortunately, the maximum deviation occurs near 2,240 pounds and is of such magnitude as to increase the storage capacity by more than 40 per cent over that of a perfect gas. Thus, whereas approximately 160 standard cubic feet of a perfect gas could be stored per cubic foot of space, approximately 230 standard cubic feet of natural gas can be stored per cubic foot.¹

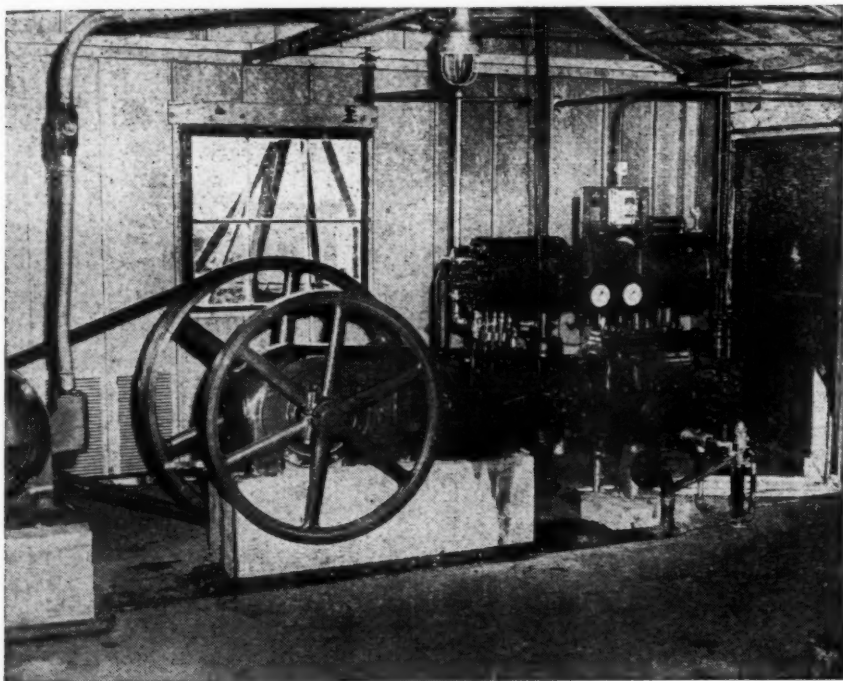
To withstand the necessary high pressures, a special 24-inch OD seamless heavy wall pipe was made of American Pipe Institute N-80 steel which has a yield point of approximately 80,000 per square inch. The pipe has a minimum wall thickness of .448 inches and weighs approximately 5,000 pounds per 40-foot length. In order to avoid field welding of the N-80 steel, each length of pipe, before shipment to the job, was swedged down on both ends, the ends rough bored, the pipe stress relieved and tapped on each end with 1½-inch thread. Each length was hydrostatically tested to 2,800 per square inch in a water-filled jacket, which procedure permitted the detection of any pipe in which the yield point was exceeded under test. The 50 lengths of pipe installed at Kankakee averaged 39 feet, 6½ inches, in length, and the average internal volume as determined by weighing when empty and when full of water was 109.66 cubic feet.

¹ This was dramatically demonstrated when 10 lengths of special pipe were pressured to 2,300 pounds per square inch with 187,000 cubic feet of air whereas 260,000 cubic feet of natural gas were required to pressure the same 10 lengths of pipe to 2,240 pounds per square inch. Also, a high-pressure cylinder was pressured to 2,240 pounds per square inch with natural gas and the gas then carefully metered out in the laboratory. The metered volume was within one per cent of the calculated volume.

The arrangement of the special pipe was as shown on page 693 which illustrates the spacing and arrangement of 40 lengths, which makes up a "standard" 1,000,000-cubic foot unit of storage. The spacing between lengths of pipe was selected so as to facilitate installation, and so that a failure of any special pipe will not disturb adjacent pipes. The special pipes were spaced 8 feet end to end and 15 feet center line to center line. At Kankakee 40 lengths were installed as in drawing (page 693) and the other 10 lengths were installed as a part of future "standard" 1,000,000 cubic-foot unit.

THE storage installation consists, in addition to the buried special pipe, of a compressor for filling the special pipe, regulators for withdrawing the gas, and a boiler and heat exchanger for heating the gas prior to pressure reduction. The regulators and heat exchanger are designed for a withdrawal rate of 125,000 cubic feet per hour. The regulation which is in three steps, 2,240 pounds to 450 pounds to 150 pounds to 40 pounds, has interstage receivers equipped with relief valves.

Operating experience to date has been satisfactory. The piping was tested with air at full operating pressure prior to introduction of gas, in order to facilitate safe repair of any leaks. No leaks were found in the 1½-inch threaded joints in the ends of the special pipes. These threads and the 1½-inch male threads of the 1½-inch expansion bends connecting the special pipes were accurately cut and were carefully gauged with special gauges, both at the mill and in the field, and field "make-up" of these joints was carefully supervised. Sample threaded joints had been pre-



THE THREE-STAGE COMPRESSOR FOR FILLING THE SPECIAL PIPE HAS A CAPACITY OF APPROXIMATELY 6,000 CUBIC FEET PER HOUR

viously tested and found tight under 3,000 pounds gas pressure. Only one leak was found in a weld and no leaks were found in ring gasket flanged joints. A number of leaks were found at threaded joints made with "ordinary" pipe threads. Almost all such joints were then back-welded to insure tightness.

THIS type of storage has many advantages. Since major facilities are underground, they are not subject to storm damage, are little influenced by atmospheric conditions, and there is no hazard to or from aviation. Since

storage is in many small units, storage capacity may be added easily in any increments desired, and any unit may be taken out of service for repair or inspection without disturbing the remainder. A high percentage of stored gas is instantly available at distribution pressure. The investment, operating costs, and maintenance costs are very attractive as compared to other types of storage.

It is anticipated that the flexibility and obvious advantages of this type of storage will make it quite popular for certain locations and conditions.

Washington and the Utilities



The Battle That Never Was

FRIENDS of the Interior Department are still asking themselves what happened to the furious defense which was supposed to have been made on the floor of the House of Representatives to restore at least part of the funds slashed out of the Interior Department Appropriation Bill. A number of western Representatives had promised a last-ditch struggle to put back various Reclamation Bureau items which the House Appropriations Committee had thrown out or seriously cut. Telephone calls and letters were exchanged and even "rump" sessions were held.

Representative Welch (Republican, California), recognizing the formidable strength of the eastern Republican majority opposition, nevertheless said "we ought to go down screaming our lungs out."

But when the smoke cleared from the 2-day debate on the floor of the House of Representatives, the bill was passed by a vote of 307 to 30. The closest the opposition came to turning back the recommendations of the House Appropriations Committee was on a motion to recommit which was defeated by a vote of 140 to 197. As the bill finally passed the House of Representatives, only a few minor amendments favored by the House Appropriations Committee itself had been adopted. Total Interior appropriation, originally recommended for a reduction of 47 per cent, finally passed with a reduction of 45 per cent. The effect of the amendments had been merely to add \$5,175,000 to the original committee report.

No amendments opposed by the committee were approved.

BECAUSE the thirty members who finally voted "nay" on the passage of the bill constitute almost an irreducible minimum of the so-called "public power bloc" in the House membership, the list of names may be of more than passing interest to those concerned with public power questions. It is as follows:

Angell (Republican, Oregon)
Blatnik (Democrat, Minnesota)
Bloom (Democrat, New York)
Delaney (Democrat, New York)
Dingell (Democrat, Michigan)
Douglas (Democrat, California)
Fernandez (Democrat, New Mexico)
Gordon (Democrat, Illinois)
Gorski (Democrat, Illinois)
Havener (Democrat, California)
Holifield (Democrat, California)
Huber (Democrat, Ohio)
Karsten (Democrat, Missouri)
Kee (Democrat, West Virginia)
King (Democrat, California)
Kirwan (Democrat, Ohio)
Lemke (Republican, North Dakota)
Lesinski (Democrat, Michigan)
Madden (Democrat, Indiana)
Marcantonio (American Labor, New York)
Miller (Democrat, California)
O'Konski (Republican, Wisconsin)
O'Toole (Democrat, New York)
Price (Democrat, Illinois)
Rabin (Democrat, New York)
Redden (Democrat, North Carolina)
Rooney (Democrat, New York)
Sadowski (Democrat, Michigan)
Smith (Republican, Ohio)
Welch (Republican, California)

In addition to these thirty "irreconcilables," the following seventeen members were "paired" against passage of the bill:

Buchanan (Democrat, Pennsylvania)
Buckley (Democrat, New York)
Byrne (Democrat, New York)
Celler (Democrat, New York)
Dawson (Democrat, Illinois)
Domengeaux (Democrat, Louisiana)
Eberharter (Democrat, Pennsylvania)

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Heffernan (Democrat, New York)
Keogh (Democrat, New York)
Klein (Democrat, New York)
Lynch (Democrat, New York)
Mrs. Norton (Democrat, New Jersey)
Pfeifer (Democrat, New York)
Powell (Democrat, New York)
Rayfiel (Democrat, New York)
Somers (Democrat, New York)
Wood (Democrat, Georgia)

The original committee bill recommended an over-all Interior appropriation for 1948 of \$156,538,513, which represents a 47 per cent reduction from the budget estimates of \$295,420,420.

THE brunt of the economy ax was felt by the Reclamation Bureau, which was cut from a budget estimate of \$145,952,200 to a total of \$62,717,600. However, Representative Jones (Republican, Ohio), chairman of the Interior subcommittee of the Appropriations Committee, pointed out that certain unobligated funds would result in making available for Reclamation a total amount of \$141,085,367.

The limited amounts which were put back into the bill on the floor of the House were distributed as follows: \$2,000,000 more to the Columbia basin project, making a total of \$11,435,000; \$2,000,000 more to the Colorado-Big Thompson project, raising its funds to \$6,815,000; \$1,000,000 more to the Anderson Ranch dam, Idaho, project, totaling \$3,874,000; and \$175,000 to the Glendo, Wyoming, project.

The Opposition Rests

IT should be said, for purposes of the record, that friends of the Interior Department made several game though vain efforts to repair some of the damage which they felt the Appropriations Committee had done. For example, there was the amendment offered by Representative Gore (Democrat, Tennessee), who wanted to restore sufficient funds for the Secretary's office to continue the division of power. Under the committee's bill there was a specific restriction providing that "no part of these appro-

priations should be used for the division of power under the office of Secretary."

In the debate which followed, Representative Jones explained that the power division was performing work essentially duplicating functions of other divisions of the Interior Department. On a voice vote the Gore amendment was defeated.

Representative Rabin (Democrat, New York) tried to boost the appropriation for the Interior's legal staff from \$200,000 to \$300,000. It lost. Representative Rooney's (Democrat, New York) attempt to restore funds for Bonneville Power Administration and Northwest projects likewise failed.

The debate on these and other amendments attempting to rescue specific projects under the Reclamation Bureau was not up to advance notice of a spirited contest. Possibly, the remarks of Representative Jensen (Republican, Iowa) in the floor debate on April 25th had a chilling effect on some of the fancy ghost writing. Representative Jensen said:

... Yesterday a member of the Interior Department pretty close to the Secretary called my office and said, "This is the busiest place you have ever seen. For the past week everybody who could write a speech of any kind has been writing speeches for the Congressmen to deliver up there to blast the majority members of the committee." So we have listened to these canned speeches to no end.

ECHOS of the House battle on the Interior Bill reached the Senate floor on April 30th when Senator Taft (Republican, Ohio) defended his party from the charge that it was out to wreck the Reclamation Bureau. Senator Taft said:

As to Reclamation, the bill passed by the House provides \$60,000,000 of new funds for Reclamation, besides the carry-over of \$85,000,000, making a total available of \$145,000,000, more than has ever been spent in a single year for Reclamation.

The majority whip, Senator Wherry (Republican, Nebraska) made the point, however, that the Senate was going to go into each Interior item carefully and on its own merits before rubber-stamping the House action. And in fact it was generally expected among Washington observers that the Senate Appropriations

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Committee and the Senate as a whole would put back some additional items into the Interior Bill, so as to leave the final version for writing in conference.

The Interior Department itself is expected to fight in the Senate for some of its activities and abandon others, as far as reclamation is concerned. Interior is emphasizing the importance of the Columbia basin project, Colorado-Big Thompson, and Davis dam. As for the abolition of funds to carry on the oil and gas division and the public power division, there seems to be some disposition to let these economies go into effect, if the Congress insists, without too much argument.

Fabian Tactics Succeeding

THERE is growing belief in Washington that the Federal Power Commission will succeed in its efforts to kill the gas bill amendments with kindness. FPC Chairman Nelson Lee Smith testified before a Senate Interstate Commerce subcommittee on the Rizley-Moore-Ferguson bills (HR 2185 and S 734), the general purpose of which is to amend the Natural Gas Act so as to limit FPC jurisdiction over production, gathering, and "end use" of gas. Chairman Smith had nothing but courteous if not downright kind words to say about the spirit which motivated the introduction of these bills.

He completely reversed the usual tactic of a commission or department chief testifying against legislation which would cut his agency's powers. Ordinarily, the agency chief, under such circumstances, breaks forth into aroused defense and, like as not, suggests that the people behind the bill are questionable if not vicious characters, attempting to steal away the liberties of the American people and undermine the integrity of their government. Chairman Smith, on the contrary, conceded that there was much to be said for those who are confused by the uncertainties of various phases of natural gas regulation.

However, the genial FPC chairman

went on to point to a number of pending circumstances which make it advisable, in his opinion, to delay any precipitate action by Congress at this time. There is—or was at the time the chairman testified—the argument in the Supreme Court on the Interstate Natural Gas Company Case, which involves several of the controversial points covered by the Rizley Bill and other bills. Then there is the FPC's own natural gas investigation, which has been concluded for several months, but which the commission is now in the process of summarizing in the form of a report.

ALTOGETHER, Chairman Smith admitted that changes in the Natural Gas Act are being contemplated by the commission itself, but not just now. He urged that Congress wait both for final publication of the FPC investigation report and for possible clarification by the Supreme Court in the Interstate Natural Gas Case. Summing up his own conclusions, Chairman Smith stated:

We are not stubbornly opposing any and all attempts to amend the Natural Gas Act, either to clarify its meaning or to ensure that its administration will be wholly in accord with the congressional intent. If we held any such smug view we would never have undertaken the evaluation of Federal policy and the self-appraisal which is the purpose of the natural gas investigation. If that investigation had been designed simply to support some preconceived objectives, we certainly would not have followed the procedure of sending the tentative reports of our staff for comment and criticism by all interested parties before submitting our conclusions and recommendations to the Congress.

We believe, however, that questions of Federal policy regarding the natural gas industry should be dealt with comprehensively on a firm and rounded basis. Any needed legislation should deal fairly with the problems as a whole, rather than in piecemeal fashion, with priority to some measures pressed by those having a special interest in certain changes. We expect that our full report on the investigation—upon which so much effort has been expended, not only by the commission but also by the others who have participated—will within a few months give you a sound and helpful basis for your decisions regarding all these questions in terms of the public interest.



Exchange Calls And Gossip

New Trends Stem from Telephone Strike

A MONTH-LONG telephone strike on a nation-wide scale is an experience that this country never went through before. Now that we have done so, all of us are the wiser for it. All of us includes the telephone companies, telephone workers, Congress, and the state legislatures, and those everlastingly innocent bystanders, the public.

The National Federation of Telephone Workers may never be the same as it was before the strike. At that time it was a young, virile, cocky independent organization about to grow out of its short pants and become a well-organized national union. Today it is broke, its membership is damaged, its prestige deflated, and it is indebted to several wealthy American Federation of Labor units which are anxious to gobble it up. Although it maintained a fair margin of public sympathy according to a national Gallup poll throughout the strike, it lost support of the public in many instances where mass picketing, violence, sabotage, and neglect of duty led to inconvenience and hardship.

SOMEWHERE in final negotiations leading up to the actual calling of the strike, union emphasis shifted from the wage issue—a request of a flat \$12 weekly increase across the board, and other major fringe items—to that of nationwide bargaining. When Bell system companies refused to submit to such bargaining, and the administration did not support the strike with seizure threats or other concrete action, there was little for union leaders to do but sit down and watch the strike simmer. First, national

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bargaining was abandoned by the strike leaders, then the wage demand was cut in half, and finally the unions decided to agree to arbitrate if a down-payment wage increase was granted at once. Some face saving was effected in the final conciliations, but the internal situation within NFTW was a seething cauldron of disgruntled factions. Plans are still afoot for the conversion of NFTW to "one national union." Sympathetic observers are inclined to the view that such action is tantamount to locking the barn door after old Dobbin has hit the road.

From the management point of view, its principle of setting wage scales on regional bases seems to have been confirmed by both the outcome of the strike and more or less general public approval. As for negotiations, 1947 may possibly be the last year when either company or union can stand each other off and avoid the bargaining table. The Bell system, of course, has lost money during the strike. Its toll revenues tumbled to less than half its normal business.

Whether the strike will endanger AT&T's traditional yearly dividend cannot be guessed at this time. The company had no trouble evidently in adding a billion dollars to its capital stock on April 23rd. The direct effects of the new wage boost on company earnings will await rate adjustments in the various states served by the Bell companies. Best guess at this time is that the companies will have to absorb some of the higher operating costs, pass on others.

Frustration on Capitol Hill

CONGRESSIONAL attitude has crystallized, apparently, on taking meas-

EXCHANGE CALLS AND GOSSIP

ures against mass picketing and its attendant violence. At this writing some sort of penalty or prohibition on "heel and toe" picketing, the kind that prevents access to or egress from a struck plant except by forcible bodily contact with a picket, is due to be written into the new labor bill. Earlier provisions in the bill outlawing industry-wide bargaining seem to have landed on the scrap heap for the moment. The telephone strike pretty well nullified that principle when applied to telephone service anyway. Union shop provisions seem likely to come out of legislative conference in such shape as to leave present telephone union relations about the same as they now are. But the growing expectation of a White House veto of the labor bill has most local watchers looking further ahead than this session of Congress. Many of them foresee a muddling along of present labor affairs for another year at least, barring another impulsive move by John L. Lewis in July. But the pattern is set; passage of some sort of labor bill will come eventually.

Two States Get Tough

THE delaying technique has been reflected to a large extent by the state legislatures, but some tough labor laws did get on the books, and some of them were used in the telephone crisis. In Virginia and Indiana, telephone workers stayed at their switchboards, though with some mental reservations. The new Indiana law, which requires compulsory arbitration if either company or union applies to the governor, was neatly gotten around, for neither side called for intervention. National union headquarters directed the state unions to keep working. Apparently both company and union feared governmental decision on contract settlement provisions. Regardless of the motives behind the strategy not to test state law, the public was served in Indiana throughout the strike.

Virginia law requires a 45-day waiting period after negotiations break off between company and union, while the gov-

ernor polls the workers and determines whether they will work under state operation. The state's telephone employees filed notice of a walkout to start May 17th, but when the governor counted the ballots for and against working for the state, he found that better than 75 per cent of the workers would stay on their jobs if the company was seized. This was significant in view of earlier union claims that the rank and file would vote overwhelmingly against working under state seizure.

The last-minute New Jersey antistrike law, which went on the books just after the telephone strike started, turned into somewhat of a fiasco. The law provided stringent penalties for violation of its provisions, which include compulsory arbitration and state seizure of struck utility plants. The new penalties were considered so severe that neither company nor management liked them. They call for fines on companies and unions of \$10,000 for each day of an illegal strike or lockout, plus fines on individuals up to \$500 and thirty days in jail for each day of an illegal strike. The telephone union quickly decided that the state could not possibly jail or fine all 12,000 New Jersey phone workers. Union headquarters ordered the walkout, which had started before the new penalties went into effect, continued. A test of the law's constitutionality was postponed in Federal statutory court, and the legal snarl that followed allowed New Jersey strikers the same consideration accorded to strikers in other states.

The Poor Old Public

ODDLY enough, some segments of the public hardly knew of the strike and felt none of its effects, while others suffered real hardships. Two disasters in the Southwest spurred local public reaction against the strikers. One Oklahoma union official ordered her members to stay on the picket lines during the emergency following the tornado that struck Woodward, Oklahoma. Those

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members promptly resigned from the union and went back to work. There were also reports that telephone circuits in emergency use from the stricken Texas City, Texas, area, were "willfully severed" by parties unknown. Strike fronts in Michigan, Ohio, California, Tennessee, Louisiana, and Illinois, were the scenes of flare-ups from pickets and sabotage. Both the Federal Communications Commission and the FBI looked into acts of violence and threatened Federal prosecution if they continued.

But the biggest and longest-suffering group was the legion of manual phone users, whose service dried up to emergency calls only and stayed that way for weeks. Public opinion, in general, moved a little closer towards crystallization on the utility strike question. It was true that interruptions to phone service were not great enough to warrant labeling the strike a national calamity. This fact, however, hurt the union far more than it did the company. And it certainly reflected somewhat to the discredit of Federal and local administration, in the admission that while nothing should have been done about the strike so long as public welfare was not jeopardized, very little could have been done quickly by the administration if public welfare had been in danger. Drawing the almost obvious conclusion, it would seem that new, carefully written, nonvindictive legislation on the subject of utility strikes still is needed, either on the local or national level.

Death Sentence for Western Union?

THE American Federation of Labor for the first time went on record last month in favor of immediate disposal of the Western Union Telegraph Company, either by government operation or integration with the AT&T system. In a brief filed with the Federal Communications Commission on Western Union's proposed reduction of service outlets, the AFL charged that the company planned curtailment of 35 per

cent of its branch office operations. On behalf of its member union, the Commercial Telegraphers Union, AFL asserted that the company intended to leave local handling of telegrams in some cases in the hands of "garage keepers, purveyors of hot dogs, druggists, real estate agents, and even, with all solemnity, morticians." The union even made the surprising statement that it believed the company "wishes to get out of the telegraph business—and as quickly as possible."

No preference was expressed by AFL as to whether Western Union should be operated as a government monopoly by the Post Office Department, or turned over to AT&T. The plea brought out again into the open an issue which has been smoldering quietly since the first of the year, when FCC Commissioner Durr voiced a similar thought. The smoldering resulted largely from a wet blanket dropped on the idea by the new Congress, which wants to wait and see.

REA and Farm Telephones

THE rôle of the Rural Electrification Administration in developing farm telephone service has again been brought into question by the action of an organization representing its co-op members. This is the National Rural Electric Cooperative Association, a grass-roots outfit, which held its annual convention in Spokane, Washington, last month, and included among its resolutions one on farm telephony. The NRECA asked REA (which agency staked the co-ops so they could go into the farm power business) to approve "contract forms" for supplying telephone service to rural areas in cooperation with existing telephone companies.

Standard rental fees have been tentatively agreed upon by the co-ops and the companies, but final approval is awaited from REA in Washington. Whether or not REA has authority to approve these contracts is not clear, but the phone companies apparently are satisfied to let REA initial the pacts, which are only tentative anyway. REA still cannot make telephone loans.

Financial News and Comment



By OWEN ELY

Summary of Holding Company Integration Progress

TAKING the principal holding companies in alphabetical order, the following is a brief summary of the progress made by the systems in carrying out their integration programs as required by the Securities and Exchange Commission, to meet the requirements of the Public Utility Holding Company Act:

American & Foreign Power Company. The plan filed with the SEC some two and one-half years ago appears to be obsolete. The company recently proposed to refund its outstanding debenture bonds, reducing the amount and effecting a substantial reduction in fixed charges. It is rumored that, based on this change, the old plan may be revised, issuing a larger number of common shares and modifying the terms accorded preferred stockholders. From time to time it has been conjectured that the company might sell its Argentine properties but nothing tangible has been reported as yet.

American Gas & Electric Company has substantially completed its integration program, practically the last step being disposal of Atlantic City Electric Company. Part of the stock will be sold (the offering was recently postponed because of market conditions) and the balance distributed to stockholders over a period of time.

American Light & Traction Company. The principal integration problem, the question of the amount of premium over par to be paid to the noncallable preferred stock in order to retire the issue, seems to remain as obscure as ever. Sometime ago arguments were heard on the conten-

tion of a large corporate stockholder that the stock is worth 40, while the company maintained that only 25 (par value) should be paid. The SEC staff split the difference and suggested 33 but the commission itself, presumably divided on the question, has never given the answer. Another problem, the financing of the proposed pipe line, has been only partially cleared up.

American Gas & Power Company. The merger plan with the subsidiary, Minneapolis Gas Light Company, has been approved by the SEC and the Federal court, but apparently will be appealed to a higher court. The stock of the new company is traded "when issued."

AERICAN POWER & LIGHT COMPANY. Two plans have been filed with the SEC in the past year or so, one by the company itself and another by a common stockholder's committee. The SEC has not indicated its findings as yet, and in any event market conditions remain somewhat adverse to effecting the plan. Meanwhile, the company is making minor progress by merging two of its Northwest subsidiaries.

American Water Works & Electric Company. The company is about to effect a separation of the waterworks properties from the electric; proceeds of sale of the waterworks stock will be used to retire the top company's preferred stock. Little progress has been made with integrating the electric system, however; this will require retirement of senior securities of the subholding company, West Penn Electric Company.

Cities Service Company. The plan for retiring the preferred stocks (at call

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prices plus dividend arrears) by exchange for new 3 per cent bonds appears likely to go into effect in the near future. There is a remote chance that one preferred stockholders' group may insist in the courts on obtaining a $3\frac{1}{2}$ per cent coupon rate on the bonds. Sale of remaining utility stocks may await market improvement, however.

Columbia Gas & Electric Corporation. Except for minor questions the company's integration program is completed. The company's gas business may have large expansion possibilities if gas is brought from the South for seasonal storage in depleted Appalachian wells.

Continental Gas & Electric Corporation. There have been no recent developments of special interest. Last year the company sold an important subsidiary, Columbus & Southern Ohio Electric Company, proceeds being applied to reduction of the \$50,000,000 bank loans. (Debentures and preferred stocks were previously retired.)

CONSOLIDATED ELECTRIC & GAS COMPANY. A new plan has been filed with the SEC (through the parent company, Central Public Utility Corporation) which provides for an exchange of the holdings of Atlanta Gas Light Company common stock for preferred stock of Consolidated Electric. If completed, this should be an important step in the integration program of both companies.

Commonwealth & Southern Corporation is making step-by-step progress toward its major objectives of retiring the preferred stock and disposing of its interest in the northern group of companies. The SEC is expected to rule shortly on transfer of Commonwealth's major holdings in southern subsidiaries to the Southern Company, a new subholding company. Eventually Commonwealth may merge with this company.

Electric Bond and Share Company. The company has retired its preferred stocks and eventually may distribute some of its interests in subholding companies to stockholders (after the integration programs of these companies have been consummated). The company ex-

pects to remain in business with its major interests in American & Foreign Power and Ebasco Services Incorporated.

Electric Power & Light Corporation. No SEC decision has been reached regarding the company's exchange plan for retiring its preferred stocks.

Engineers Public Service Company. Execution of the plan for substantial liquidation has been delayed by technicalities in connection with the preferred stockholders' fight for redemption premiums.

General Public Utilities Corporation. A great deal already has been accomplished in integrating the former Associated Gas System. Technical problems may slow the balance of the program.

International Hydro-Electric System. Interest arrears have been cleared up on the bonds, and full current interest is being paid. Further dissolution steps may await consummation of the integration plan of the subholding company, New England Power Association, although sale or distribution of the interest in Gatineau Power Company of Canada remains a possibility.

LONG ISLAND LIGHTING COMPANY. Integration plans are made difficult by the conflicting views of the SEC and the New York Public Service Commission, as illustrated by the current "battle" between the two commissions over reorganization plans for the subsidiary, Kings County Lighting Company.

Middle West Corporation. The company's holdings in its largest subsidiary, Central & South West Corporation (recently recapitalized) will be distributed to stockholders in June. The board of directors on May 6th recommended sale or distribution of remaining assets and the dissolution of the company. A special stockholders' meeting was called for August 8th to vote on this recommendation.

New England Power Association. The SEC-approved plan of recapitalization and integration has been confirmed by two Federal courts, but preferred stockholders of subholding companies may decide within the near future whether to

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carry an appeal to the Supreme Court for their full claims (including call premiums). If the plan is consummated the company's name will change to New England Electric System.

New England Gas & Electric Association, recently completed its refinancing and recapitalization program. About the only remaining integration step is the disposal (through sale or distribution) of the Maine and New Hampshire subsidiaries, which are not a very important segment of the system. Complete details on the present setup will be found in the prospectus on the new common stock.

New England Public Service Company. The company has substantial stock interests in three fair-sized operating companies and about \$18,000,000 cash (largely from sale of textile and paper interests). Holders of the prior lien preferred stocks want the money (together with stock of Public Service Company of New Hampshire) used for retirement of their holdings at call prices and arrears, but common stockholders are opposing the plan. Final dissolution may be sometime off, if the fight among the three classes of stockholders is carried through the SEC and the courts.

NIAGARA HUDSON POWER CORPORATION. Consummation of the system-wide merger plan awaits a final settlement between the company and the New York commission over write-offs, depreciation reserves, etc. The SEC is expected to agree with the merger program after this is cleared with the local commission.

Northern States Power Company (Delaware). This holding company has almost a unique record in the large number of plans which have been filed from time to time by representatives of various security groups, the management, etc. A new series of plans is now being considered by the SEC. Eventually a compromise may be worked out between the preferred and class A stockholders for distribution of the principal asset, the common stock of the Minnesota subsidiary of similar name.

North American Company. The remaining bank loan will be retired through the current sale of Cleveland Electric Illuminating Company (principally through rights to stockholders). The interest in Wisconsin Electric Power Company will probably be distributed through stock dividends and special distribution. The principal remaining integration problem is concerned with North American Light & Power Company. (See below.)

North American Light & Power Company. North American Company has proposed to retire the publicly held preferred stock and pay \$7.50 per share to common stockholders. Representatives of the latter are seeking a larger amount before the SEC. Final hearings were before the commissioners themselves (rather than the staff), indicating the probable intention to expedite this issue, over which some 15,000 pages of testimony and exhibits have been compiled in recent years.

Public Service Corporation of New Jersey. Final details of the recapitalization plan were filed a few weeks ago with the SEC, providing for a merger with the Electric & Gas subsidiary, retirement of the noncallable preferred stocks through an exchange for convertible preference common stock, etc. Thus far no determined opposition to the plan has developed, though United Corporation (largest stockholder) would prefer to have the transit subsidiary disposed of.

STANDARD GAS & ELECTRIC COMPANY. The company recently sold its interest in Mountain States Power Company and expects soon to sell California Oregon Power Company stock. Stone & Webster and J. Samuel Hartt are working on an appraisal of all the company's remaining properties and expect to report in the near future, following which a new plan to allocate assets to various security holders will be formulated.

United Corporation. The company expects to continue in existence as an investment and investment banking company, after the preferred stock is even-

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tually retired and the status of a utility holding company is divested through sale, exchange, or distribution of principal utility interests.

United Gas Improvement Company. While a very substantial part of the former holdings have been distributed, the program has not been entirely completed. The company will probably continue in existence as a small integrated holding company, retaining its interests in certain gas subsidiaries.

United Light & Railways Company. The company is expected eventually to merge with Continental Gas & Electric Corporation as a single integrated system. Eventual dissolution of American Light & Traction Company, the other subholding company, would aid the program by helping to eliminate bank loans and senior securities.

Analyses of Utilities Securities By Wall Street Houses

BEAR, STEARNS & Co. has prepared a 9-page memorandum on Public Service Corporation of New Jersey. Some of its conclusions are as follows: (1) The price-earnings ratio of this holding company stock is substantially less than average, and the yield somewhat higher than average (for utility operating stocks). (2) The company's electric and gas earnings have continued to expand despite substantial electric rate cuts. (3) The debt structure is sound, and the cash position strong enough to provide for construction requirements for a considerable period. (4) Earnings of over \$3.50 a share (*pro forma* 1946) could probably be realized through a proposed recapitalization plan under the Holding Company Act.

The study includes five pages of tables, with a projection for 1947-51 of the estimated consolidated earnings (assuming no reorganization). The projections were prepared by Ebasco Services (the service company for Electric Bond and Share) which was retained by Public Service in connection with the recapitalization proceedings before the

SEC. Following are the results (including 1946 actual figures):

| | |
|------------|--------|
| 1946 | \$2.54 |
| 1947 | 2.25 |
| 1948 | 2.42 |
| 1949 | 2.90 |
| 1950 | 3.37 |
| 1951 | 3.61 |

These estimates assume some decline in transportation revenues, moderate gains in the gas business, and a more substantial rate of increase in the electric revenues. The decline in 1947 is largely due to estimated changes in the earnings of the transportation subsidiary.

J. J. O'CONNOR & Co. (Chicago) has prepared a memorandum on West Ohio Gas Company. The company's revenues increased 43 per cent during 1942-46, share earnings doubled (from 40 cents to 80 cents), and dividends increased from 10 cents to 55 cents per share. It is estimated that the company is losing about 20 cents a share because of gas leakage, which may be reduced by the repair program now under way. The company has no funded debt, bank loans, or preferred stock. Natural gas is purchased from Ohio Fuel Gas Company, which is planning to double the supply to West Ohio in 1947. The company is said to have "low saturation" in gas refrigeration, hot water, and house heating.

Glore, Forgan & Co. has prepared an 11-page booklet on "The Outlook for Electric Utility Common Stocks." This is an interesting historical study, analyzing the threat of rising costs. It compares the trends of utility stock prices, industrial stocks, and wholesale commodity prices in the periods 1913-19 and 1939-46. "After World War I," according to the study, "once the spiral of rising costs had run its course, utility equities were rediscovered by the investor. We believe this postwar phenomenon will be witnessed again. . . . It will be noted that the prices of utility equities declined further in 1920 when the final spurt occurred in commodity prices and the market for industrial shares declined."



What Others Think

Intensive Selling Urged at EEI Annual Sales Conference



THE keynote of the thirteenth annual sales conference of the Edison Electric Institute, held at the Edgewater Beach hotel in Chicago, early in April, was sounded by Chairman Ralph P. Wagner, who told the assembled utility men "we are now on the verge of a buyer's market, where selling will again be a must for every sale."

To lend emphasis to that statement and its specific application to electric utilities, Mr. Wagner made the following declaration:

We are practically the only industry which can point to decreasing prices for our service during the war and the ensuing period of price inflation. Our sales have increased beyond our expectations, and there is some evidence that our industry has been lulled into an increasing sense of endless prosperity by this lush period.

While the sale of electrical service may not be a pressing problem of the moment, we may, without clear warning, find ourselves facing a situation where sales are imperatively needed for the financial welfare of our companies. The upsurge of the economic cycle started in 1938, and gave clear evidence of its nature. On the contrary, the downturn will come out of a seemingly clear sky. Sales forces cannot be built overnight. The warning signs of coming changes are even now so sharp that we should be prepared to meet the day when sales will be demanded.

THE many phases of the selling problem were set forth in various papers presented at the conference. Of special interest was the one read by J. S. Schuchert, chairman of the institute's commercial section, on "The Planned Lighting Program for the Electric Industry." The coordinated approach to lighting sales made possible by this program, he stated, offers the industry increased sales of electric energy and lighting equipment, and will improve public relations.

Mr. Schuchert drew attention to the

vital contribution of the lighting load to electric utility net revenue, and said that

Many factors, such as low selling cost, advertising value, good load factor, no saturation, low mortality, high power factor, no competitive methods, and tangible customer satisfaction, mean that, generally speaking, lighting load produces greater kilowatt hours and revenue per dollar of plant investment, per dollar of operating cost, and per dollar of selling cost.

The planned lighting program, Mr. Schuchert said, is aimed at providing customers with modern lighting installations, designed to serve economically and efficiently their specific living, working, and selling needs. All customers in five major markets—residential, store, school, office, and industrial—will be urged to have their lighting installations planned according to the latest practices in lighting, before buying any equipment. He added:

When built up properly and executed effectively, planned lighting infers "guaranteed good" lighting. It's an implied certification. It has great customer appeal, and can be a strong promotional weapon. For all our markets—homes, stores, offices, schools, factories—we can apply the planned lighting theme straight across the board. Thus, we have a standard-bearer, which can lead all branches of the industry to the development of this market on a scale never before thought possible.

Turning to a detailed description of the materials to be made available in the program, Mr. Schuchert said that an over-all plan book, explaining the reasons for the program, and its importance to the power company, is being distributed to chief executives of the industry. Individual plan books are being prepared for each of the five major markets—residential, store, office, school, and industrial.

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EACH plan book describes the characteristics of the particular market, the potential revenue that may be secured by organized sales efforts, and the sales organization and operating methods best suited for successful selling in this field. Also included are samples of all the advertising and promotional materials prepared for use in each field.

In a paper on "The Better Light Better Sight Bureau," Harry Restofski, the bureau's chairman, stressed the importance of the new planned lighting program by emphasizing the need for better lighting which exists in this country. He declared that

... every survey made in recent years shows that homes are woefully underlighted, according to the most conservative standards recommended by lighting authorities ... home lighting intensities average only six or eight foot-candles, when the need is for several times as much.

Ten to twenty million portable lamps are purchased annually, and most of them are wholly inadequate for easy seeing. That's because, while women buy most lamps to provide light, they select them primarily for decorative appeal ... we haven't told them often enough and convincingly enough of their need of better light for better sight.

Similar lack of sufficient lighting intensity is to be found in thousands of schools, offices, and factories, the speaker stated, and, in urging the need for continuous education in these matters, he said:

People will buy and use the kind and amount of lighting they need only when they are made to understand the benefits accruing to them. An educational approach to lighting is even much more necessary than is true of the appliance markets. That approach, that kind of foundation, is even more of a "must" if we are to do the kind of industry job we should do. Education is the foundation of lighting sales.

The educational movement, spearheaded by the bureau, has made a definite contribution to public understanding of the need for better lighting for better seeing. To those of us in the industry, it has made clearer our opportunities and responsibilities.

The president of Sylvania Electric Products, Inc., Don H. Mitchell, addressed the conference on "Our Mutual Responsibilities for Building the Electrical Market." He stated:

If American industry is sincere in wanting the minimum of governmental interference in the operations of our economy, then industry must assume the responsibility of providing the sales that will insure reasonably full employment.

Never before has sales had such a responsibility placed upon it. ... It can be done, but it will need new marketing tools and new sales management concepts. One approach to sales budgeting must be on the basis, not of how little, but how much can we afford to spend to get the desired volume. This approach will produce larger results faster than a program of economy, and in the long run will be more beneficial to the investor.

MR. MITCHELL pointed out that one reason advanced in support of nationalization of the electric utilities in France and England was the necessity for developing the electrical market beyond what private ownership apparently had been able to do, and declared that

... Constant evidence that you are encouraging the use of electricity in every way will help to convince the public that you are contributing to the welfare of the communities you serve.

The latest public opinion polls, the speaker stated, show that the American public

is less inclined to want government ownership of electric utilities than it has for a long time. The situation today is much more healthy with respect to your business than it has been for several years, and it can continue to improve under inspired sales direction.

If you are to preserve free enterprise in utility operation, neither you nor your managements can ever afford to become complacent and satisfied with your sales results.

In addition to the sales matters which were considered at the general sessions of this 3-day conference, there were gatherings of several sections of the institute, at which a wide variety of topics having to do with sales activities were discussed.

These sectional conferences included commercial sales, farm electrification, industrial power and heating, and residential and home service. These meetings were participated in by representatives of electric utility companies and manufacturers of electrical appliances and equipment.

This thirteenth annual sales conference

WHAT OTHERS THINK

was attended by about 800 people, indicating the definite interest of electric utility companies in this very important phase of their business. The details as to papers read and topics discussed, and the names of the speakers who participated,

as listed in the conference program, provide ample evidence that it must have been an occasion of practical value to all those who were so fortunate as to attend.

—R. S. C.

Protests against Cuts in Funds Feature NRECA Meeting

THE fifth annual convention of the National Rural Electric Cooperative Association was held late in April in Spokane, Washington. REA co-ops from practically all sections of the country were represented at the sessions, there being some 2,000 delegates in attendance.

President Truman sent a message to the convention in which he told the NRECA that it cannot consider its job done

as long as this country has rural people still living and working without the benefit of electricity . . . I have confidence in the ability of rural people to work cooperatively toward the goal of complete electrification, and I want to assure you of my support and best wishes for success in this endeavor.

Mr. Truman said it would take

purpose of mind as well as ingenuity to push out beyond the densely settled areas . . . There will be those who say it cannot be done or it should not be done, as they have in the past. What you can do for the development of rural America in terms of a more stable income, better living, and the creation of new wealth constitutes great potential contribution to the national well-being.

Administrator Claude R. Wickard of the Federal Rural Electrification Administration, speaking on "Power in the Hands of Rural America," made a plea that there be no limitation of REA authority to make loans for co-op generating and transmission facilities. He said:

In a majority of cases I believe that commercial power companies can furnish REA co-ops with adequate power at fair prices. However, the best assurance that the co-ops have that they will get this kind of service springs from the authority of REA to make loans for generating and transmission facilities.

The director of the power division of the Interior Department, Arthur E. Goldschmidt, told the delegates that the nation was "operating its power system by heavy encroachments on its reserves," and that any attempt to curb the Federal power program was "dangerous in the extreme." He declared:

. . . the combined national peak (of power output) was 93 per cent of the total dependable capacity of class 1 utilities in January. This means we had an average of only 7 per cent reserves. . . . Many important power areas are operating well above their net assured capacity. We are relying on luck.

ADMINISTRATOR Paul J. Raver of the Bonneville Power Administration was another speaker. He purported to show the importance of low-cost hydroelectric power in providing new sources of tax revenue. He also asserted that increasingly large quantities of power at consistently low rates should be provided in order to create new opportunities for free enterprise. As to this he declared that

Creation of new taxable wealth with its attendant benefits in new jobs, new investment opportunities, and broader tax base, together with conservation of our declining oil supplies, would be reason enough to justify the government expenditures for these great dams, generators, and transmission lines.

Congressmen who are advocates of public power spoke against cuts in appropriation of funds for these Federal projects.

Senator Warren G. Magnuson (Democrat, Washington) stated:

These so-called economy cries in Congress about such self-liquidating projects as the

PUBLIC UTILITIES FORTNIGHTLY

'Quit Followin' Me Around!'



Courtesy, Pittsburgh Press

Columbia basin are only a smoke screen to scuttle reclamation projects. Certain members of the House appropriations committee have been instigated by power interests in the East to oppose these appropriations.

Senator Magnuson denounced the "selfish interests who want to keep us in serfdom" and declared that special privilege groups in the East "want the former
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to be at the mercy of the moneyed interests." The campaign to raise power rates on projects in the West, he said, was a fight on the part of the industrial East to prevent the West from becoming an industrial threat through the production of cheap electric power.

Senator Milton R. Young (Republican, North Dakota), in a lengthy ad-

WHAT OTHERS THINK

dress, praised the record of REA co-ops. Then, referring to the prospect of cuts in appropriations, he said:

... the present attempt is to use national economy as a smoke screen for killing the program. Our foes hope to persuade economy-minded members of Congress that REA is using the taxpayers' money to sponsor electrification which, they claim, private interests could as well provide. They hope that Congress, in its enthusiasm to reduce Federal expenditures, will cut proposed REA loan funds for the coming year so sharply as to cripple REA or sharply curtail future expansion.

While I favor drastic reduction in overall Federal expenditures, I think it should be pointed out that there is much distinction between spending—as such—and the investment of public money in a self-liquidating enterprise. The REA program is a splendid example of what can be accomplished for the benefit of millions of our citizens without cost to the government and, as a member of the Senate Appropriations Committee and the Agriculture Committee, I shall vigorously oppose any attempt which may be made to curtail appropriations for this agency.

In discussing the question of the financing of generating plants by REA, Senator Young made these comments:

I am sure I do not need to emphasize the importance of this provision in the REA law. Without the right to construct power plants, REA would have absolutely no bargaining power whatever with private power and would be completely at their mercy. This is a very important part of the appropriation and one which will be sharply attacked by the private power interests.

I hope that no REA cooperative will abuse the privilege that it has in constructing power plants. Wherever low-cost electricity is available through existing power concerns, REA should, by all means, purchase it through these sources. Not only because it would be unwise to construct additional and unnecessary power plants, but for other reasons, too. There is a real possibility that within a very few years electricity will be generated through atomic energy at far lower cost than now is possible through water power or any other means.

TURNING then to another phase of the electric cooperative situation, the Senator declared:

... Your opponents now are trying to buy out some of your older, well-established, and profitable cooperatives. Having watched you do something that they themselves were un-

able or unwilling to do, they now hope to take over the projects that you have proved to be sound financial undertakings. They hope to persuade you that since you are well established there is no reason why you should continue bothering to operate your co-op. They are trying to relieve you of your obligation to extend your lines. They tell you they will give you the service at even lower rates than you now pay. Some cooperatives may be disposed to sell out to these interests, but I predict they will see the day when they will regret such action.

Senator Young then told his audience that more than 20 bills have appeared in Congress which would, he asserted, "in one way or the other, cripple the REA program." He stated:

... Several of these, through indirect methods, would raise the cost of power to your cooperatives now being supplied by reclamation power dams. Other contemplated proposals would require all REA borrowers to release co-op members upon request if not connected within one year after application for service. Then there are various provisions for raising the public power rates to all the traffic would bear; by raising interest rates; by amending the Reclamation Act to place a greater cost burden on irrigation and power. Another proposal would require projects to pay out before new projects could be undertaken. There is a plan to direct RFC to sell all notes and mortgages on the open market. These are only some of the proposals contained in the many bills now before Congress.

Perhaps one of the most dangerous threats to REA has come with the introduction of bills in many state legislatures that would place REA cooperatives on the same tax basis as corporations which operate for a profit. Millions of pieces of propaganda have been placed in the mails all over the United States on this one proposal alone. People who do not understand the objectives of cooperatives such as yours, which is to furnish power at cost to their customers, might well think that REA should be placed under the same taxing provisions as corporations.

THAT the protests voiced against cuts in appropriations, not only for REA loan funds, but for Federal power and reclamation projects, were effective is indicated by resolutions which were passed. Specifically, the convention went on record against the Harris Bill (HR 2709) which would take away the REA's authority for making loans for generating and transmission facilities. Another resolution was adopted against proposed

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congressional legislation which would require the Reconstruction Finance Corporation to sell notes and mortgages of the REA co-ops in the open market. Such legislation, the NRECA resolution said, "would make the coöperatives and rural public power districts subservient to the will of vested private interests."

Two other resolutions adopted were as follows: (1) Asking Congress to make \$200,000 available for research, study, and application of rural power to farm

use; (2) asking that the REA approve contract forms for supplying telephone service to rural areas in coöperation with existing telephone companies. The latter resolution seems to be based on the theory that it is unnecessary for Congress to pass new Federal legislation in order to permit REA to supervise rural telephone activities of its co-op borrowers. Another resolution urged Congress to restore all funds requested in the budget for power and land development.

Notes on Recent Publications

Atom Rations for the World. Technical processes in the Oak Ridge and Hanford plants of the atom bomb project are outlined. The writer, a worker on the project, comments on the theories of refining processes, and the breaking down of fissionable materials into U-235, plutonium, and sundry isotopes in concentrated form. Reference is also made to possible future industrial uses, upon which there have been a variety of opinions expressed. *ATOMS FOR EVERYBODY.* By Philip Morrison, *New Republic*. March 24, 1947.

Let's Get Down to Work! When government puts forward schemes to provide security, regimentation is increased and initiative smothered. An expanding economy can only be had through individual initiative. Security lies more in the individual than in economic planning, says the author—more talk of "challenge and opportunity" and less of "security" would be better for everybody. *I'M FED UP WITH SECURITY.* By Maynard L. Heacox. *Pic.* April, 1947.

Out of the Doghouse, at Last? With the trend of legislative and popular sentiment now favoring a check on spreading Federal power development, the private utilities plan extensive additions to their facilities. Construction expenditures indicated are the largest in many years. The Federal government in the last thirteen years put \$3,500,000,000 of the taxpayers' money in hydro power projects. Its current appropriation is down to \$202,000,000, and the present attitude in Congress suggests that next year it will be less. The author comments that in certain sections of the country where the operating areas of each have been well defined, private and public power get along all right. *UTILITIES REBOUND FROM NEW DEAL SUPPRESSION.* By John H. Falvey. *Barron's*. March 31, 1947.

Plugging the Home Town. In Evansville, Ind. MAY 22, 1947

diana, the manufacturers association has been telling the citizens about the importance of local industry to the community. Servel, Inc., the largest employer in that city, has joined in this educational campaign, and is running large weekly newspaper advertisements, worded to attract the workers in shops and factories. In addition, the spring edition of the company's pocket-size, home-makers' magazine will feature a case history of a typical worker, with his own story of what he thinks about free enterprise in terms of its effect upon him personally. *EVANSVILLE PLAN.* *Tide*. March 21, 1947.

Statistics Are More Pliable than Facts. The multitude of uses to which government statistics are put makes the figures presented of vital importance. The author, as a nongovernment statistician, explains the technical reasons why errors will happen, especially because of the growing custom of expressing estimates in terms of aggregates. He suggests that Federal agencies adopt a policy of issuing, at regular intervals, appraisals of their own statistics—that the methods used be described and evaluated, and the reliability of component factors be assayed. Also, that where any margin of error was disclosed by revisions of similar estimates in the past, it be pointed out. *ACCURACY OF GOVERNMENT STATISTICS.* By Geoffrey H. Moore. *Harvard Business Review*. Spring, 1947.

The Closed Shop Again! Comments upon opposed views on outlawing the "closed shop." No, says Senator Wayne Morse—can't enforce such legislation. William Green says no—it's a move by big business to wreck labor unions. On the other hand, Senator Joseph H. Ball says yes—where there's a closed shop the worker's free choice of a job is gone. And Ira Mosher says yes—the closed shop gives unions monopoly powers. *SHOULD THE CLOSED SHOP BE OUTLAWED?* By Jack H. Pollack. *Pic.* April, 1947.

The March of Events



In General

Calls for Clearer Federal Power Policy

EARLY and clear indication of the long-run intentions of the Federal government in the electric power field was called for by Federal Power Commission Chairman Nelson Lee Smith in an address at Washington, D. C., on May 2nd before the thirty-seventh convention of the National Rivers and Harbors Congress.

Concluding his talk, Chairman Smith pointed out that he had endeavored to "indicate the senses in which we have a national power development program, and those in which we do not, as well as some of the respects in which the outlines of our present policy need to be made clearer."

It is for the Congress to determine those policies, he added, "and it is then the duty of the administrative agencies (of the Federal government) to apply them as honestly and efficiently as possible. Equally it is the obligation of the power industry to cooperate in an effort to make the national program fully effective."

Earlier in the address, Chairman Smith described briefly the present rôles of the War Department, the Department of the Interior, the Tennessee Valley Authority, and the Federal Power Commission in relation to government power construction and declared that "there seems to be evident a need for the Congress to develop a more consistent pattern for the treatment of some of those important aspects of Federal power project operation and administration."

President Truman on May 5th sent to the Senate the nomination of Burton N.

Behling to succeed Richard Sachse as a member of the Federal Power Commission. At the same time Mr. Sachse's resignation was announced by the White House.

Mr. Sachse, who has been vice chairman of the commission, wrote the President that his recovery from a prolonged illness has been less than satisfactory and that his physician has prescribed a long rest. Mr. Truman replied that he had no alternative, under the circumstances, but to accept the resignation.

Mr. Behling was nominated for the remainder of Mr. Sachse's unexpired term, and for the 5-year term which will expire on June 22, 1952.

Behling has worked closely with FPC Chairman Smith since joining the commission staff, and is expected to continue in charge of FPC's natural gas investigation, of which division he has been director. His appointment is the first "career" appointment to the FPC.

Dam Renamed

PRESIDENT Truman on April 30th signed a resolution from Congress changing the name of Boulder dam back to Hoover dam in honor of former President Herbert Hoover.

The original Boulder Canyon Project Act was signed in December, 1928, by President Coolidge. Ray Lyman Wilbur, Secretary of the Interior in the Hoover administration, named it Hoover dam, in accordance with custom, but without legislative action.

Early in the New Deal, Harold L. Ickes, Secretary of Interior in the Roosevelt administration, changed it to Boulder dam.

Arizona

Authority Invites Applications

THE Arizona Power Authority Commission recently invited qualified public and private distributors and consumers of Arizona to make application for power purchase certificates.

In letters the commission announced that the early adoption of a final and permanent plan for the construction of essential transmission lines to bring power into Arizona from Boulder dam, of stations, stand-by plants, and other facilities "will be an immediate undertaking of the authority commission."

Kenneth B. Aldrich, authority director, coupled with this announcement an appeal for "unity and prompt, concerted action in aiding the authority in bringing in Boulder dam power to relieve the deficiency of electrical energy in Arizona."

Accompanying Aldrich's letters to

prospective buyers were copies of amendments to the original Power Authority Act of 1944 made by the eighteenth legislature. These amendments, he pointed out, do not affect the existing power contracts aggregating 88,000 kilowatts which were entered into before the recent legislative session, but relate solely to future applications for power from the main stream of the Colorado river.

The authority's communication pointed out that "upon representation of an organization composed of the private utility companies of Arizona that they were desirous of contracting for Boulder dam power, but could not safely enter into such contracts because of the omission of essential features in the Arizona Power Authority Act of 1944, the act was amended as per agreement" by the state legislature.

Arkansas

RFC Agrees to Pay Taxes

THE Reconstruction Finance Corporation, owner of the Little and Big Inch pipe lines which cross Arkansas, has notified the state public service commission that it is ready to pay state tax assessments against the property for 1944 and 1945, Chairman Charles C. Wine said recently.

Defense Plant Corporation, as predecessor of RFC and builder of the lines, paid state taxes for 1943 but refused the following year on the ground that the system was personal property, not taxable under Federal law.

Attorney General Guy E. Williams filed suit against the corporation for the

1944 taxes and the case is pending in United States District Court. RFC also has agreed to pay future assessments.

No Special Legislative Session

No special session of the state legislature will be called to consider labor laws giving the state authority to seize strike-bound utilities, Governor Laney said recently.

Commenting on a suggestion of a Blytheville American Legion post, he said:

"I do not consider this the solution to the telephone strike or to any other labor problem. The labor movement is a national problem."

California

Phone Rate Increase Denied

THE state public utilities commission on May 1st denied Pacific Telephone & Telegraph Company's petition for an immediate increase in telephone rates in the state. It struck from its

phone & Telegraph Company's petition for an immediate increase in telephone rates in the state. It struck from its

THE MARCH OF EVENTS

records company exhibits purporting to show that the company needs more California revenue in order to meet a requirement of the parent American Telephone and Telegraph Company, nation-wide organization, for more revenue.

Last February the company petitioned for higher telephone rates and especially requested that the commission immediately authorize an increase of about 11 per cent in rates as an interim action

while going into the entire case in detail.

The commission held a hearing in March at which the company presented its evidence, and was scheduled to hold another hearing in Los Angeles May 12th and in San Francisco May 19th to hear the opposition.

On May 1st the state body ruled on the interim request and on the exhibits by which the company hoped to tie the California case into a nation-wide case.

Connecticut

Commissioners Appointed

CARL M. SHARPE of Pomfret and Henry B. Strong of Salisbury were appointed last month by Governor McCaughy to serve as members of the state public utilities commission, succeeding Clyde Olin Fisher of Middletown and Joseph P. O'Connell of Bristol.

Sharpe has been serving as state dairy

and food commissioner, and Strong as the governor's executive secretary. Both are members of the Republican State Central Committee. They succeed Democrats, appointed by former Governor Robert A. Hurley.

Strong was named for Commissioner O'Connell's unexpired term ending June 30, 1951, while Sharpe will have a full 6-year term, starting July 1st.

Florida

Antipicket Bill Passed

THE state senate recently passed a bill which would outlaw picketing of any public utility. The vote was 22 to 15.

The measure, which was introduced by Senator John E. Mathews, of Jacksonville,

also would make it unlawful to picket a business where employees were not on strike.

The senate killed another bill which would brand as a "strike" any agreement by two or more employees to stay away from work for more than forty-eight hours.

Iowa

Report on Rural Electric Activities

EXTENSION of rural electric transmission lines brought electricity to 25,771 more farm families in Iowa during the 18-month period June 30, 1945, to December 31, 1946.

The figures were given recently by the state commerce commission in a report on rural electric transmission activities.

The report said the 25,771 farm cus-

tomers added to rural transmission line service during the 18-month period were more than the total number of farms served by such lines on June 30, 1936.

Total number of farms now served with electric service was placed at 150,687, or 72 per cent of the farms in the state.

The commission's report, compiled by George Charlesworth, its electrical engineer, said that as of last December 31st there were 54,984 miles of rural electric

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transmission line in Iowa, an increase of 8,107 miles during the eighteen months covered by the report.

Of the 150,687 farm families now served with transmission line electricity, 60,081 are served by private electric utility lines; 85,087 by REA lines; 4,109

by extensions of municipally owned lines; and 1,500 by miscellaneous services.

The report added that during the year 1946 the commission granted 577 rural electric transmission line franchises for the construction of 5,575 miles of lines.

Massachusetts

Elevated Suit Dropped

IN a statement branded by State Auditor Buckley as "an ugly whitewash," Attorney General Barnes announced recently that he intended to withdraw the state's \$18,000,000 suit against the Boston Elevated Railway for recovery of depreciation costs. He said that further litigation would be too expensive and probably unsuccessful.

"The establishment of the existence of any balance due the commonwealth by trial of the two pending proceedings is legally so improbable," said Barnes, "that the proceedings should in any event be terminated at once. Otherwise the Boston Metropolitan District and the

commonwealth will be put to substantial additional expense that is not justified by the probability of ultimate success."

Barnes held that Robert T. Bushnell, his predecessor, never would have undertaken the suit, had he been "informed of the facts which are now in my possession."

The board of directors of the Boston Chamber of Commerce last month voted unanimously in favor of public ownership and operation of the Boston Elevated Railway. The board said it agreed with the belief that the el's many handicaps prohibited profitable operation of the system under its present organization.

Michigan

Signs Utility Strike Bill

GOVERNOR Kim Sigler on April 28th signed an act which makes it a felony to interfere with or "manipulate" utility services without authority. The law, effective immediately, makes possible a penalty of up to five years' im-

prisonment for switch pulling, cable cutting, or other sabotage during strikes.

The measure was rushed through the state legislature in order to stiffen and broaden an existing statute for possible application to the recent strike of Michigan Bell Telephone Company employees.

Missouri

Rate Reduction Filed

MOST residential customers of Union Electric Company of Missouri will obtain a reduction of 19 cents a month in their bills, under a new rate schedule filed by the company with regu-

latory authorities on April 30th. The aggregate effect of the new schedule will be to reduce company revenue by \$703,637 a year, or 5.3 per cent, the utility announced.

Essential purpose of the new schedule

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is to do away with the rate differential in St. Louis city between Union Electric's own customers and those it took over

from Laclede Power & Light Company. The latter utility was absorbed by the larger concern over two years ago.

Nebraska

REA to Enter Another Rural Field

THE Rural Electrification Administration will soon move into a new field—installation of pressure water systems and modern plumbing.

The new program is "most practical and aims to point out the advantages of properly installed water systems on the farm," said the *Nebraska Electric Farmer* recently, monthly publication of Nebraska rural public power districts.

The publication said the plumbing program, similar in many respects to the wiring program, includes: (1) Educa-

tional meetings and local publicity to stimulate interest in adequate water systems and plumbing and help rural people determine their plumbing needs; (2) coöperation with health officials, extension service, and vocational agriculture teachers to assure a sound and practical program; (3) participation of local plumbers, jobbers, distributors, and retail plumbers in providing plumbing supplies and services to members; (4) arrangements, where necessary, for financing purchase and installation of plumbing equipment through REA; (5) inspection of completed plumbing systems as insurance against defective installation.

New Mexico

Municipal Ownership Contract

FISCAL agents heretofore employed by the city of Santa Fe in an effort to get into the municipal ownership field now have a 2-year contract. By a 4-to-1 vote, the city council recently substituted this for the 1-year agreement, entered

into October 9, 1946, with Beecroft, Cole & Co. of Topeka, Kansas, and Lucas, Farrell & Satterlee, Inc., of Kansas City, Missouri.

The commission to be paid the agents, if they are successful, also was changed in the new deal, being made 1.75 per cent.

Oregon

Utility Rate Shift Opposed

COMMISSIONER Dorothy McCullough Lee recently asked the city council of Portland to adopt a resolution opposing the bill in Congress which would allow natural gas utilities to fix rates on a current cost theory rather than the theory of prudent investment, which applies to all public utilities in Oregon.

The National Institute of Municipal Law Officers has asked an expression from cities as to their positions on the proposal.

Although Portland has no natural gas utility, Mrs. Lee said in a report filed recently that she believes a change by Congress of the prudent investment theory in this instance would "sooner or later result in a change from this theory with regard to other public utilities. Regulation on this basis has resulted in savings to consumers in this area of millions of dollars," she declared.

The bill would result in increased earnings to the stockholders of a utility, Mrs. Lee explained.

Pennsylvania

Public Ownership of Utilities Urged

GOVERNOR James H. Duff's endorsement of an antistrike ban on public utility workers was countered on May 2nd by the recommendation of a government employees union official for public ownership of these vital service industries.

Arnold S. Zander, Madison, Wisconsin, international president of the American Federation of State, County, and Municipal Employees (AFL), suggested the transfer of utility ownership to the "people" as part of a "counterattack" on

forces seeking to curb the power of organized labor.

Mr. Zander's program, which also called for growth of a "militant" consumer coöperative movement, was outlined to 1,500 delegates attending the forty-fifth annual convention of the Pennsylvania Federation of Labor (AFL).

The group on May 1st heard Governor Duff promise to oppose legislation designed to "restrict or repress" unions except measures banning strikes against utilities and government services such as police and fire protection systems.

Virginia

Firm Denied Dam Project Data

POWER company opposition to the government's Buggs island flood-control and power project lost a round in Federal District Court at Richmond recently as the district attorney's office took formal note of a court order denying the Roanoke River Power Company sweeping information as to details of the river basin development.

Judge A. D. Barksdale, of Lynchburg, denied the power company's motion for a bill of particulars which a government attorney had said might be used in an attempt to refute the government's right to build the Buggs island dam and other facilities.

Included in the data which the company had sought to obtain through the motion were "all portions of official documents, whether printed or unprinted, on which the purported adoption and authorization (of the act of Congress authorizing the project) are based."

Accumulation of this matter, the government said unofficially after the motion was filed, would provide a full-time job "for a staff of sixty for the next six months."

The power company now is faced anew with the necessity of filing an answer to the government's petition of condemnation of 2,340 acres of land owned by the company in the Roanoke river basin.

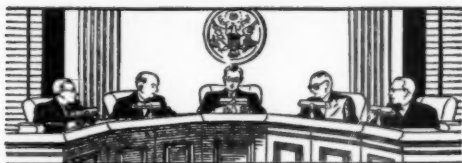
Wisconsin

Rural Co-op Bill

THE state assembly last month passed and sent to the state senate a bill to give rural electric coöperatives right of eminent domain. The measure would allow electric coöperatives to condemn and acquire property or flowage rights if necessary for the benefit of the people as a whole.

Its immediate effect, if given senate approval, would be to aid the Dairyland Power Coöperative in its projected dam on the Flambeau river near Ladysmith. The co-op's request for permission to build the dam was before the commission.

The bill would not give coöperatives the right to land or flowage rights within the boundaries of state parks or forests.



The Latest Utility Rulings

Telephone Subscriber May Be Victim of Police Government

A TELEPHONE company has the right to deny service where a subscriber uses the telephone for bookmaking purposes. For that reason an Ohio court overruled an objection to a defense by a company against a damage claim for discontinuing service.

But police government was condemned by the court. A telephone company, said the court, cannot withdraw service merely because it complies with a police request. In fact, said the court, a letter of the chief of police requesting withdrawal of service would not even be proper evidence. The company must prove the gambling charge.

The subscriber in this case said that he was much disillusioned. He had come back from the Army where "he and his buddies had been fighting throughout the

world to destroy police governments in other countries." Then when he got back home he found that police government had "reared its ugly head right here in his home city."

The court said it was common knowledge that the city police were engaged in yanking telephones from walls and breaking up telephone equipment if they thought it was being used for bookmaking. The telephone company had required the subscriber to get the OK of the chief of police before it would give him service. It withdrew service upon the request of the chief of police, all without any hearing as to the gambling charges. That, said the court, was police government pure and simple. *Giordullo v. Cincinnati & Suburban Bell Telephone Co.* 71 NE2d 858.



Plan for Stock Sale to Employees at Discount Disapproved

PETITIONS by the American Telephone and Telegraph Company for approval of a plan to increase its common capital stock, which consists of 25,000,000 shares of the par value of \$100 a share, to 35,000,000 shares of the par value of \$100 a share were denied by the New York commission. There was held to be an absence of proof of public interest.

The increase would amount to one billion dollars of par value of capital stock, but, on the basis of present worth of the stock, would amount to more than one and one-half billion dollars. The com-

pany planned to offer not more than 2,800,000 of the 10,000,000 additional shares of stock to its regular employees under an employees' stock plan. The stock would be issued at \$150 a share, or at 20 points below the average market price during the months payments are completed or during the next succeeding months, whichever is lower, but not less than \$100 per share. The commission said:

Unless there is something more to this intention than is enclosed in the record, it would seem that at least the market value

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of the company's stock might be seriously and adversely affected by such a plan of sale at such a discount . . . there should be some proof to justify the proposal.

The New York law provides that a corporation subject to the provisions of the Public Service Law shall not file a certificate increasing the amount of stock unless it shall have endorsed upon it the consent and approval of the commission having jurisdiction of the corporation. Section 101 of the Public Service Law states that no telegraph corporation or telephone corporation shall be required to apply to the commission for authority to issue stocks except for certain purposes, such as acquisition of property, construction of facilities, and discharge of obligations. The company took the position that it came within this

exception as to the issue of stock and did not intend to apply to the commission in regard to the issuance of any of the 10,000,000 shares.

The commission then raised the question whether it was required to endorse its consent and approval as a mere ministerial matter or whether the legislature intended that the commission pass upon the question of whether its consent and approval should be given or withheld in accordance with some sound and substantial criterion. The commission concluded that approval is not perfunctory. It is not enough that the certificate be regular in form and properly executed according to statutory requirements. Public interest must be shown by the company. *Re American Telephone & Telegraph Co. (Case 12873)*.



Simplification Steps Can Be Taken without Passing on Over-all Plans

THE Securities and Exchange Commission refused to defer action on proposals which would be necessary steps in holding company simplification until it rules upon over-all plans for recapitalization. Nothing in the Holding Company Act, said the commission, or in the proceedings relating to Commonwealth & Southern Corporation, requires that the commission defer action upon a transaction merely because it is a step which might also be considered a part of the company's over-all program. The commission continued:

On the contrary, it is entirely clear that compliance with § 11 may be effectuated through a series of steps and the only proper questions here are whether the particular step is a "necessary"—i.e., appropriate—

method of compliance, whether it is consistent with expeditious over-all compliance, and whether it is fair and equitable to the persons affected.

The commission approved the retirement of approximately 28 per cent of the holding company's preferred stock through a voluntary exchange of portfolio common stocks of subsidiary companies. It overruled contentions as to unfairness.

It also overruled an objection to the practice of the staff of the public utilities division in holding conferences with representatives of the management in which a representative stockholder was not invited to participate. *Re Commonwealth & Southern Corp. (Delaware) et al. (File No. 54-151, Release No. 7337)*.



Request for Merger Approval Premature

THE Wisconsin Public Service Corporation has been authorized by the Wisconsin commission to acquire the common stock of Coleman-Pound Light & Power Company. The latter company, organized in 1914, has always purchased

its power from Wisconsin Public Service.

For the past year most of the heavy construction and maintenance work of Coleman-Pound has been performed by employees of the other company because of inability to handle this class of work.

THE LATEST UTILITY RULINGS

The holder of the company's stock is the operator of its business, and he is unable properly to maintain the property because of his age and difficulty in obtaining qualified help.

The commission concluded that the public interest would be served by approval of the transfer. It did not, how-

ever, think that a request for approval of a merger of the corporation should be granted. Full ownership of the stock by the corporation would be required for a merger. That might or might not occur. Present approval would be premature. *Re Wisconsin Public Service Corp. (2-U-2241).*



Conversion of Electric Utility to Coöperative Approved

THE request of an electric association for authority to sell its urban property to the city government and to convert into a coöperative was approved by the Missouri commission.

Authority for the sale had been obtained from the people of the city and the directors of the association. The commission did not believe that the contemplated changes would in any way be detrimental to the public.

Commissioner Wilson disagreed in an opinion which brought under fire the administration of rural electrification loans in the midwestern states. Many such loans, she said, in no way promoted the electrification of rural areas, which was the entire justification for the program.

Her opinion as to the consequences of conversion to coöperative status is:

In previous cases before this commission involving similar issues I have pointed out the disadvantage to the public in removing utility properties from the jurisdiction of the regulatory body of the state of Missouri, the Missouri Public Service Commission, and also in changing the status of a utility property which serves the public generally to a coöperative which serves only its members and an additional number equal to 10 per cent of its members. When an electrical utility company is removed from the jurisdiction of the Missouri Public Service Commission its consumers have no place to go for relief from increased rates and inadequate service, if any.

The commissioner concluded by pointing out that the evidence failed to show that the association, as a coöperative, could legally serve all prospective customers. *Re Intercounty Electric Coöperative Asso. (Case Nos. 11004, 11005).*



City Free to Install Generating Plant

THE Wisconsin commission says it is not its function to provide management or impose managerial restrictions upon a city as an electric utility. It is within the managerial province of the utility to determine whether it will purchase or generate electricity.

The city of Menasha had decided to generate electricity in place of buying it from the Wisconsin-Michigan Power Company. There was some question as to whether estimates of savings were accurate, but savings would be sufficient, in all probability, to meet interest and amortization requirements of the investment.

They would probably not be suffi-

cient to produce a profit comparable to what might be considered a fair return.

The Wisconsin-Michigan Power Company had appeared in opposition to a proposed plant to be constructed by the city; but it withdrew objections when the city announced that an existing agreement governing the division of customers would not be disturbed. This agreement provided that the power company would not solicit or seek to serve residential or commercial users in the city, and the municipality would not solicit or seek to serve industrial or other large users whose initial demand is in excess of 50 kilowatts. *Re City of Menasha (CA-2464).*

PUBLIC UTILITIES FORTNIGHTLY

Urgent Needs Justify High Debt Ratio

THE issue and sale of notes by Portland Gas & Coke Company to obtain funds for construction of additional facilities was permitted by the Securities and Exchange Commission although this would increase the ratio of long-term debt to total capitalization and surplus from 42.7 per cent to 48.1 per cent.

It had become necessary, as a temporary expedient, during the heating season 1946-47 to use large quantities of Diesel oil because of its higher gas-making value. By this means the company was able to increase the production capacity of its generators. This, however, resulted in an increased cost of \$1.05 per barrel over the price of heavy residuum oil. While Diesel oil could be used advantageously for peaking purposes, its extensive use meant abnormally high production cost, arising in part from a re-

duction in the quantity of by-products produced.

Installation of the proposed facilities was expected to reduce the quantity of Diesel oil used during peak periods more than 90 per cent. The commission said:

In the absence of the special circumstances of this case, we might be reluctant to exempt without condition transactions which result in an increase in the ratio of long-term indebtedness to total capitalization and surplus, especially in the case of a company such as Portland which has large arrearages on its preferred stock. However, in view of the company's urgent need for funds to maintain adequate service, as indicated by the orders of the state commissions, and the impracticability of obtaining such funds at this time from other sources, we do not deem it necessary to impose any terms or conditions.

Re Portland Gas & Coke Co. (File No. 70-1498, Release No. 7350).



Agreements on Border-line Facilities

THE Pennsylvania commission authorized a transfer of an electric distribution line by Luzerne County Gas & Electric Corporation to Pennsylvania Power & Light Company, commenting:

The progressive expansion in recent years of electric facilities to the fringe or border of charter territories makes it increasingly

important for utilities to delineate more clearly their respective service areas through the orderly process of mutual agreement respecting border-line facilities and service. The instant proceeding is an example of such agreement in the public interest.

Re Luzerne County Gas & Electric Corp. et al. (Application Docket No. 68955).



Municipal Use of Funds Restricted

HIGHER rates for the municipal electric plant operated by the city of Manitowoc were disapproved by the Wisconsin commission. The utility had earned a liberal profit for the past six years.

A lower profit was expected in 1947, but this, in the opinion of the commission, would still be adequate.

Aside from the question of the amount of utility operating income, the commission considered how the income should be applied. The Wisconsin law requires that the income of a municipal utility

shall be used first to meet operation, maintenance, depreciation, interest, and sinking-fund requirements, additions and improvements, and other necessary disbursements, or indebtedness. Excess income may be used to buy bonds or may be paid into the general fund.

With a proposed expansion program under way, there would not be sufficient funds to meet all the requirements listed in the law and transfer any moneys into the general fund. The commission was, therefore, of the opinion that compliance with the statute did not permit the utility

THE LATEST UTILITY RULINGS

to make further appropriations from utility income to the general fund so long as these funds were required to meet the

necessary purposes first enumerated in the law. *Re City of Manitowoc* (2-U-2289).



Right to Supervise Radio Program

A BROADCASTING company's right to supervise the programs offered the public through its facilities by an educational institution was upheld by the Federal Circuit Court of Appeals.

The company had purchased the radio property from a college. As part of the purchase price the company agreed to allow the college a certain amount of radio time every week.

The controversy arose when the college refused to submit its programs to the company for approval prior to the broadcast.

The court ruled that the company's position was correct and stated:

... there is no doubt that, under the act and the rules and regulations promulgated by the commission pursuant thereto, it is the right and nondelegable duty of the broadcasting company, acting reasonably, to determine whether a program offered by the college is in the public interest, and to allocate such time for the broadcast of a program offered by the college as will best serve the public interest.

Regents of New Mexico College of Agriculture & Mechanic Arts v. Albuquerque Broadcasting Co. 158 F2d 900.



Dual Purpose Rate Disapproved

AUTHORITY was granted by the Wisconsin commission to increase rates of the Wisconsin Rapids City Gas Company upon a showing that while many items of increased operating expenses had not been reflected in full during 1946 the company had suffered an operating loss. The commission, however, disapproved a so-called "dual purpose" rate which applied to residential customers having two or more major appliances.

The commission said:

We do not consider this type of rate desirable. It is an unnecessary complication of the rate structure and accomplishes nothing that cannot be accomplished through a single rate.

Another feature which the commission did not approve was a rate for residential service limited to Wisconsin Rapids. The company proposed to eliminate differentials in rates between Wisconsin Rapids and other communities served. *Re Wisconsin Rapids City Gas Co.* (2-U-2319).



Inconsistencies Found in Competitive Rates

THE Wisconsin commission disapproved reduced freight rates on petroleum and petroleum products, without prejudice to the filing of revised tariff supplements, in view of inconsistencies which did not appear to be either just or reasonable. The commission, however, said that, if proposed rates are reasonable and lawful, adjustment of rates to meet competitive situations is within the carrier's managerial discretion.

The Interstate Commerce Commission, it was pointed out, has held in many cases that rail carriers are free to adjust or reduce rates in order to meet competition with other forms of transportation. It is, however, recognized that there is a minimum level below which carriers may not lawfully reduce rates in meeting competition.

The Wisconsin Statutes do not contain a provision comparable to the fourth sec-

PUBLIC UTILITIES FORTNIGHTLY

tion (Long and Short Haul Clause) of the Interstate Commerce Act. The commission said:

While the commission is not bound by a "long and short haul" statutory provision, nor committed to the "short line" basis of

rate making, it is governed by the statutory requirement that all rates and charges for the transportation of property "shall be reasonable and just."

Re Rates on Petroleum Products (2-R-1753).



Air Carrier Penalized for Violation

An action by the United States against an air line to collect a civil penalty for violation of the civil air regulations was decided for the government by the Federal District Court for Minnesota. One of the company's pilots had refused to permit a government inspector to en-

ter the pilot's compartment of the plane for a routine inspection during flight. The court held that the fact that seating facilities for the inspector were lacking was not an excuse for a distinct violation of regulations. *United States v. Northwest Airlines, Inc.* 69 F Supp 482.



Other Important Rulings

THE Securities and Exchange Commission denied counsel fees and expenses in a reorganization proceeding under § 11(e) of the Holding Company Act where the commission was unable to find that the services of counsel materially contributed to the formulation of a reorganization plan or were beneficial in the administration of the corporation's estate. Counsel was appearing primarily in the interests of individual clients rather than a group of stockholders. *Re Laclede Gas Light Co. et al.* (File Nos. 54-39, 54-69, 59-65, Release No. 7260).

The Civil Aeronautics Board approved an air carrier's application for authority to establish a through service between certain cities, notwithstanding the fact that this would result in some diversion of traffic from other authorized air carriers, where the service improvements which would be effected outweighed the harmful consequences of competition. *Re Eastern Air Lines (Docket No. 1971).*

The New York Court of Appeals upheld the decision of the appellate division (noted in PUBLIC UTILITIES FORTNIGHT-

LY, January 30, 1947, at page 194) that a service-at-cost contract between the Rochester Transit Corporation and the city of Rochester did not bar the commission from investigating fares. *Rochester Transit Corp. v. Public Service Commission.*

The United States Supreme Court affirmed a decision of the district court that a railroad was not required to apply land grant rail rates to fertilizer being transported during the war to an ally under the Lend-Lease Act to further allied food production. *United States v. Powell et al.*


The New York commission pointed out that under the Public Service Law a railroad is not required at all times to provide a seat for every passenger but is required to furnish adequate service to the traveling public. The commission, after determining that service inadequacies existed, ordered a railroad to use all available equipment when and where practicable and to order additional cars with a seating capacity of not less than seventy-five persons per car. *Re Long Island Rail Road Co. (Case 12387).*

NOTE.—The cases above referred to, where decided by courts or regulatory commissions, will be published in full or abstracted in *Public Utilities Reports*.

PREPRINTS
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Public Utilities Reports

COMPRISING THE MORE IMPORTANT DECISIONS, ORDERS, AND
RECOMMENDATIONS OF COURTS AND COMMISSIONS



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PUBLIC UTILITIES REPORTS

WISCONSIN PUBLIC SERVICE COMMISSION

Re Wisconsin Hydro Electric Company

2-SB-279
March 21, 1947

APPPLICATION for authority to issue stock and bonds; granted
subject to conditions, and accounting proposals approved.

Security issues, § 41 — Necessity of Commission authorization — Recapitalization plan.

1. Authorization by the Commission is required for the consummation of a recapitalization plan involving a reclassification of outstanding capital stock even though there may be no additional original issue of capital stock and no money, property, or services paid into the company, p. 6.

Security issues, § 23 — Powers of Commission — Reissue of stock.

2. The regulatory power conferred on the Commission to authorize security issues is not restricted to an original issue of capital stock but also applies to reissues of capital stock with different characteristics, terms, or conditions, p. 6.

Corporations, § 10 — Jurisdiction of Commission — Reorganization.

3. Commission approval of a reorganization is required, in addition to authorization to issue securities, when by a reclassification of stock a virtually complete change in capitalization is proposed, p. 8.

Security issues, § 120 — Terms and conditions — Restriction on additional bonds — High debt ratio.

4. A company which is authorized to issue bonds in an amount which will create undesirably high debt ratios should be required to make an appropriate amount of subsequent net property additions subject to the lien of the bonds and unavailable for the issuance of additional bonds under the indenture securing them, p. 9.

Security issues, § 123 — Dividend restriction — High debt ratio.

5. Authorization to issue bonds in an amount which will create an undesirably high debt ratio while additional construction is necessary should

WISCONSIN PUBLIC SERVICE COMMISSION

provide that no dividend shall be paid pending completion of a pending reorganization, in order that current funds on hand remain available for construction, p. 9.

By the COMMISSION: On January 28, 1947, Wisconsin Hydro Electric Company (hereinafter called the Company) filed an application with the Commission for authority to issue \$1,750,000 principal amount of first mortgage bonds, 3½ per cent series due 1972 and \$250,000 principal amount of 3 per cent serial notes, to make certain adjustments of its accounts, and to reclassify its capital stock so as to effect a reorganization of the Company.

The Company is a public utility and a public service corporation within the meaning of Chaps 196 and 184, Wisconsin Statutes. It is engaged primarily in the electric utility business in and around the communities of Amery, Clear Lake, Colfax, Chetek, and Durand, located in the northwestern part of the state. It likewise operates gas utility service in Monroe, Platteville, and Menominee, Wisconsin.

All the common stock of the Company, consisting of 10,552 shares having a stated value of \$1,055,200, is owned by Eastern Minnesota Power Corporation, which also conducts an operating public utility business in the state of Minnesota in territory adjacent to that served by the applicant in Wisconsin.

Manufacturers Trust Company, New York city, is the owner of all the outstanding common stock and a majority of the preferred stock of Eastern Minnesota Power Corporation.

The application states that proceedings were instituted by the Federal Securities and Exchange Commission under the provisions of the Public Util-

ity Holding Company Act of 1935 to determine what steps, if any, were necessary and should be required to be taken by the Company and Eastern Minnesota Power Corporation to comply with the provisions of said act. These proceedings bear said Securities Commission's file number 59-70. Subsequently, the Company and Eastern Minnesota Power Corporation filed joint applications with Securities and Exchange Commission, bearing file numbers 54-48 and 54-138, for approval of various plans of reorganization and amendments thereto. The application in file number 54-48 has been withdrawn with the approval of Securities and Exchange Commission prior to any final decision having been rendered therein. There is currently being filed with Securities and Exchange Commission a new application wherein that Commission is requested to approve and authorize (a) the amending of the application contained in file number 54-138 and (b) to approve the plan of reorganization and refinancing as outlined in the application filed in the proceeding before this Commission.

The present security structure of the Company is as follows:

| | |
|--|-------------|
| First mortgage, 5%, bonds, due Oct. 1, 1947, less \$384,500 reacquired and held by Company | \$2,077,000 |
| 6% Cumulative preferred stock, authorized 20,000 shares of \$100 par per share; outstanding 11,953 shares | 1,195,300 |
| Common stock, authorized 20,000 shares without par value; outstanding 10,552 shares with a stated value of \$100 per share ... | 1,055,200 |
| Total | \$4,327,500 |

RE WISCONSIN HYDRO ELECTRIC CO.

The surplus account of the Company showed a balance of \$737,628.90 as of November 30, 1946. However, as will later appear, write-offs and decreases in the net book value of assets are proposed which create a deficit of \$629,147.19 as of that date. Further, accumulated and unpaid dividends on preferred stock were \$824,757 or \$69 a share on November 30, 1946.

The plan of reorganization and refinancing proposed in the application in this proceeding may be said to be composed of three steps: (1) the necessary adjustments of the accounts,

(2) the refunding and refinancing of debt, and (3) the changes in capital stock necessary to effectuate the reorganization. The application will be discussed in that order.

The adjustments of accounts proposed by the Company and the effect of such adjustments on the balance sheet and surplus account as of November 30, 1946, are listed and explained in appendices A, B, and C of this opinion. [Appendices omitted.] In summary, the adjustments result in a net charge to surplus of \$1,366,776.09, as shown below:

| | |
|---|-----------------------|
| (1) Increase depreciation reserve—electric plant to an amount indicated by a study made by the staff of the Public Service Commission of Wisconsin | \$816,748.19 |
| (2) Provision for reserve for possible loss on future sale of gas properties | 94,040.66 |
| (3) Provision for estimated loss on certain nonoperating property carried under electric utility plant | 10,000.00 |
| (4) Write-off of a portion of utility plant acquisition adjustments as approved by the staff of the Public Service Commission of Wisconsin | 344,391.62 |
| (5) Write-off unamortized portion of debt discount and expense applicable to 5% bonds to be retired | 10,013.66 |
| (6) Credit for reduction in income taxes arising from tax deductions for write-offs detailed in entries (4) and (5) above, and on the basis of cash refunding of bonds at November 30, 1946 | (17,000.00) |
| (7) Write-off commissions and expense on capital stock | 85,064.93 |
| (8) Write-off company's portion of expense previously incurred in connection with the joint plan of recapitalization between the company and its parent company | 3,517.03 |
| (9) Provision for estimated expenses in connection with the proposed plan of refinancing | 20,000.00 |
| Total | \$1,366,776.09 |

() Denotes red figure.

The increase in depreciation reserve of \$816,748.19 is made to bring the depreciation reserve up to straight-line depreciation reserve requirements as estimated by the staff in docket 2-U-2127 before this Commission (see 65 PUR(NS) 161) being an application of the Company and Badger Electric Cooperative for consent to and approval of the sale of the Company's electric and gas properties to the cooperative. In that case our staff found the electric depreciation reserve of the Company deficient by \$816,748.19 and

the company now proposes to correct this deficiency.

The provision for a reserve for possible loss on future sale of the gas properties is made to reduce the net book value of such properties to \$90,000, the estimated realizable value thereof.

The reserve of \$10,000 established on certain nonoperating hydro lands and a generator not in use is in partial recognition of the probable loss in these properties. In addition, the Company proposes to accrue \$5,000 a year additional reserve on such property so

WISCONSIN PUBLIC SERVICE COMMISSION

as to reduce the total of \$40,475 to estimated realizable value.

The write-off of \$344,391.62 of utility plant acquisition adjustments is made to reduce the net book value of utility plant to an amount not in excess of the \$3,000,000 value found by the Commission in docket 2-U-2127, *supra*, as of December 31, 1945. As will later appear, this write-off of \$344,391.62 results in the book value of plant being equal to the Commission's finding of value at December 31, 1945, plus the net increases from that date to November 30, 1946.

After the write-off of \$344,391.62 of utility plant acquisition adjustments,

a balance of \$73,020.36 will remain. The Company proposes to amortize this balance at the rate of \$15,000 per year by charges to Account 537, Miscellaneous Amortization, so that in approximately five years the entire balance will be eliminated.

The remainder of the adjustments shown above are self-explanatory from the tabulation.

After the foregoing adjustments have been applied in the balance sheet as of November 30, 1946, the Company's account before refinancing and reorganization would be as shown in Appendix A [Appendix A omitted herein] and as summarized below:

| | | | |
|--|----------------|----------------|-----------------------|
| Assets and other debits: | | | |
| Electric plant at original cost | | \$4,381,869.15 | |
| Less: | | | |
| Reserve for depreciation | \$1,507,440.01 | | |
| Contributions in aid of construction | 52,694.54 | 1,560,134.55 | |
| Net electric plant | | | \$2,821,734.60 |
| Gas plant at original cost | | 361,502.63 | |
| Less: | | | |
| Reserve for depreciation | 175,720.05 | | |
| Reserve for loss on future sale | 94,040.66 | | |
| Contributions in aid of construction | 1,741.92 | 271,502.63 | |
| Net gas plant | | | 90,000.00 |
| Utility plant acquisition adjustments | | | 73,020.36 |
| Total net utility plant | | | 2,984,754.96 |
| Leased property less reserves | | | 9,788.12 |
| Other physical property less reserves | | | 39,337.65 |
| Miscellaneous securities | | | 935.00 |
| Current assets, including cash and U. S. government securities totaling \$698,255.64 | | | 827,735.61 |
| Deferred charges | | | 23,847.70 |
| Total assets and other debits | | | <u>\$3,886,399.04</u> |
| Liabilities and other credits: | | | |
| Capital stock equity— | | | |
| Common stock | | \$1,055,200.00 | |
| Preferred stock | | 1,195,300.00 | |
| Surplus (deficit) | | (629,147.19) | |
| Total capital stock equity | | | \$1,621,352.81 |
| Bonds, 5%, due Oct. 1, 1947 | | | 2,077,000.00 |
| Current liabilities | | | 175,108.19 |
| Customers' advances for construction | | | 8,581.45 |
| Miscellaneous reserves | | | 4,356.59 |
| Total liabilities and other credits | | | <u>\$3,886,399.04</u> |

() Denotes red figure.

RE WISCONSIN HYDRO ELECTRIC CO.

It will be noted that after the adjustments of accounts, total utility plant will be carried at a net amount of \$2,984,754.96 and property previously included in utility plant held for future use at a net amount of \$30,475.12 (see

Appendix A) or a total of \$3,015,230.08. This is the same as the value of \$3,000,000 found by the Commission in docket 2-U-2127 plus the net increases to November 30, 1946, of \$15,230.08, computed as follows:

| | |
|--|----------------|
| Value of property as of December 31, 1945 found by Commission in docket 2-U-2127 | \$3,000,000.00 |
| Net increase in electric plant to November 30, 1946: | |
| Net property additions | \$117,354.10 |
| Less— | |
| Increase in depreciation reserve | 99,779.20 |
| Increase in contributions in aid of construction | 2,344.82 |
| Net increase | 15,230.08 |
| Total Commission value plus net increases to November 30, 1946 .. | \$3,015,230.08 |

The second step in the reorganization plan consists of the refinancing of the Company's long-term debt. There are presently outstanding \$2,077,000 of first mortgage 5 per cent bonds, due October 1, 1947. These bonds are proposed to be called for redemption on April 1, 1947, which is the only date, prior to maturity, on which the bonds may be redeemed. In order to assure that funds are available to pay the call of the bonds on April 1, 1947, the Company, for a standby fee of \$4,375, has arranged to borrow \$1,750,000 from Harris Trust and Savings Bank, Chicago, Illinois, for six months at 3 per cent interest on an unsecured basis, this borrowing to take place if the Company shall not have sold its 3½ per cent first mortgage bonds, 1972 series, prior to April 1, 1947.

To secure funds to retire its present bonds (or to pay the loan from Harris Trust and Savings Bank in event the short-term financing is necessary), the Company proposes to issue for cash at not less than par (a) \$1,750,000 principal amount of first mortgage bonds, dated March 1, 1947, maturing March 1, 1972, and bearing interest at 3½ per cent per annum and (b) \$250,000

principal amount of serial notes, dated not earlier than April 1, 1947, and not later than April 10, 1947, maturing at the rate of \$25,000 on October 1, 1947, and \$25,000 each six months thereafter until April 1, 1952, and bearing interest at the rate of 3 per cent per annum.

The \$1,750,000 of bonds are to be secured by a first mortgage and deed of trust dated March 1, 1947, to Title Guarantee and Trust Company, New York, N. Y., and Douglas Winquist, as trustees. Among other things, the indenture provides that, on or before the first day of May of each year, beginning with the year 1952, the Company will pay to the corporate trustee an amount in cash or in principal amount of said bonds of the 1972 series equivalent to 2 per cent of the greatest principal amount of bonds of the 1972 series at any one time outstanding prior to the May 1st in question. Funds so deposited with the trustee are to be applied to retirement of bonds of the 1972 series as provided in the indenture.

The bonds are proposed to be sold at par through private sale, \$350,000 to Equitable Life Insurance of Iowa,

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\$1,000,000 to Massachusetts Mutual Life Insurance Company, and \$400,000 to Modern Woodmen of America. The 3 per cent serial notes are proposed to be sold at par to Harris Trust and Savings Bank, Chicago, Illinois.

The third step in the reorganization plan comprises a complete recapitalization of the Company's capital structure and application has been made to Securities and Exchange Commission for approval thereof. The reorganization plan will be consummated in accordance with the direction of that body as expeditiously as the necessary authorizations may be obtained, although perhaps being consummated following the issuance of the proposed bonds and notes.

The plan proposes that one share of the presently outstanding preferred stock will be purchased at par and retired in order to reduce the number of shares of outstanding preferred to the number which will permit the exchange of outstanding preferred for new common stock at the ratio hereinafter set forth. It is then proposed that the Company's articles of incorporation and bylaws will be amended so as to provide 132,800 shares of new common stock of the par value of \$12 per share. The distribution of the new common stock as between holders of presently outstanding preferred stock and the holder of the presently outstanding common stock will be made in accordance with the order of Securities and Exchange Commission. In its application to that Commission, the Company proposes that (a) 119,520 shares of the new common stock, or 90 per cent thereof, be delivered to the holders of the presently outstanding preferred stock, in exchange for such

preferred stock, at the rate of 10 shares of new common stock for 1 share of preferred and (b) 13,280 shares of new common stock, or 10 per cent thereof, be delivered to the holder of, and in exchange for, the presently outstanding common stock.

[1, 2] The prayer of the application in this proceeding asks "for such authority and approval in the form of certificates of authority and orders of this Commission as may be necessary to permit the Company . . . to effect a reclassification of its outstanding capital stock by amending its articles of incorporation and its bylaws . . ." so as to accomplish the reorganization plan as proposed.

Since the application was filed in this proceeding, the Wisconsin supreme court has handed down its decision in Lake Superior District Power Co. v. Public Service Commission decided February 25, 1947, — Wis —, 26 NW2d 278, 283, holding that no fee, as provided by § 184.10(1), Statutes, was payable on a split-up of common stock into a greater number of shares without increase in the total par value outstanding. In effect, the court held that the fee of \$1 per thousand dollars par value of authorized stock applied only to original issues of stock stating that "consequently, as upon the split-up there was no issuance of any additional common stock or any change in the utility's existing capitalization, there was no additional original 'issue of securities' within the meaning of that term as used in § 184.10(1), Statutes."

In the instant proceeding there is to be no money, property, or services paid into the Company and no increase in its total outstanding capital stock.

RE WISCONSIN HYDRO ELECTRIC CO.

Thus, in conformity with the court's decision in the Lake Superior District Power Company Case, *supra*, there is no additional original issue of capital stock and no fee as contemplated by § 184.10(1) is payable. It seems clear, however, that authorization by the Commission is required for the consummation of the recapitalization of the Company as evidenced by the following sections of Chap 184:

Section 184.02 "The power to create liens or mortgages on corporate property by public service corporations in this state, or to deed such property in trust, or to issue capital stock, is a special privilege, the right of supervision, regulation, restriction, and control of which shall be vested in the state, and such power shall be exercised according to the provisions of these statutes."

Section 184.05(1) "Any public service corporation desiring to issue securities shall file with the Commission an application verified by its president or vice president and its secretary or assistant secretary (or by the signers of its articles of organization if it has not yet elected officers), setting forth: (1) The amount and character of the proposed securities; (2) the purposes for which they are to be issued; (3) the terms on which they are to be issued, including a detailed description and a detailed statement of the value of any property or services that are to be received in full or partial payment therefor, and of any property or services already received by the corporation, the cost of which is to be reimbursed to the corporation by the proceeds of such securities; and (4) a statement of the assets and liabilities of the corporation as of the most re-

cent available date, together with such further financial information as the Commission may require."

Section 184.06(1) "Upon the conclusion of its investigation, if the Commission shall find that the proposed issue complies with the provisions of this chapter and that the financial condition, plan of operation and proposed undertakings of the corporation are such as to afford reasonable protection to purchasers of the securities to be issued, it shall issue to the corporation a certificate of authority stating: (1) The amount of securities reasonably necessary and the character of the same; (2) the purposes for which they are to be issued in such detail as the Commission may deem necessary; and (3) the terms on which they are to be sold or otherwise disposed of, including a description and a determination of the value of any property or services to be received in partial or full payment therefor; and the corporation shall not issue the securities on any other terms or for any other purposes than that stated in such certificate. . . ."

It is evident from the statutes cited that before a public service corporation may issue (i.e., put forth) securities, it must first obtain a certificate from the Commission authorizing such action. The regulatory power conferred on the Commission in accordance with which it may grant such authorization is not restricted to an original issue of capital stock but applies likewise to reissues of such capital stock with different characteristics, terms, or conditions. To hold otherwise would set at naught the clearly expressed intent of the legislature that securities of public service corporations be so regulated that they "afford reasonable protection

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to purchasers" thereof. Obviously, if securities once originally issued may later be changed without Commission authorization so that their terms and conditions are different from those originally authorized by the Commission, then the finding of "reasonable protection to purchasers" required by statute would be meaningless as that protection could be completely eliminated by changes not subject to the Commission's jurisdiction. Accordingly, we conclude that authority from this Commission to issue common stock is required to effect the recapitalization of the Company.

[3] Further, in the instant proceeding a virtually complete change in capitalization is proposed. Presently outstanding preferred stock is to be converted into common stock, presently outstanding common stock into a less amount in total and per share of new common stock, and relative voting rights and control of the Company so

completely redistributed that the present preferred stockholders become the controlling interest rather than the present common stockholder. We consider this to be a reorganization of the Company subject to the provisions of § 196.79, Statutes, which provides that reorganizations of public utilities "shall be subject to the supervision and control of the Commission, and no such reorganization shall be had or given effect without the written approval of such Commission." Hence, in addition to authorization to issue securities under Chap 184, approval of the reorganization is required under § 196.79, Statutes.

There is now presented a condensed balance sheet of the Company giving effect to the accounting adjustments and to the refinancing and reorganization as proposed. Further classification of the amounts shown herein is available in Appendix A. [Appendix omitted.]

| Particulars | Amounts after Accounting Adjustments | Reorganization Entries | Pro Forma after Re- organization |
|--|--|--|--|
| Assets and other debits: | | | |
| Net utility plant after deduction of reserves and contributions in aid of construction .. | \$2,911,734.60 | — | \$2,911,734.60 |
| Utility plant acquisition adjustments | 73,020.36 | — | 73,020.36 |
| Leased property, less reserves | 9,788.12 | — | 9,788.12 |
| Other physical property less reserves | 39,337.65 | — | 39,337.65 |
| Miscellaneous securities | 935.00 | — | 935.00 |
| Current assets— | | | |
| Cash | 397,230.64 | \$2,000,000.00 (1) (2,077,000.00) (2) (100.00) (3) | 320,130.64 |
| U. S. Government securities | 301,025.00 | — | 301,025.00 |
| Other | 129,479.97 | — | 129,479.97 |
| Total current assets | 827,735.61 | (77,100.00) | 750,635.61 |
| Deferred charges | 23,847.70 | — | 23,847.70 |
| Total assets and other debits | \$3,886,399.04 | (\$77,100.00) | \$3,809,299.04 |

RE WISCONSIN HYDRO ELECTRIC CO.

Liabilities and other credits:

| | | | |
|--------------------------------------|----------------|--------------------|----------------|
| Capital stock equity— | | | |
| Common stock, 132,800 shares | — | \$1,593,600.00 (4) | \$1,593,600.00 |
| Common stock, 10,552 shares | | | |
| \$100 stated value per share | \$1,055,200.00 | (1,055,200.00) (4) | — |
| Preferred stock, 11,953 shares | | | |
| \$100 par per share | 1,195,300.00 | (1,195,200.00) (4) | — |
| Capital surplus | — | 656,800.00 (4) | — |
| | | (629,147.19) (5) | 27,652.81 |
| Earned surplus | (629,147.19) | 629,147.19 (5) | — |
| Total capital stock equity | 1,621,352.81 | (100.00) | 1,621,252.81 |
| First mortgage 5% bonds, due 1947 | 2,077,000.00 | (2,077,000.00) (2) | — |
| First mortgage 3½% bonds, due 1972 | — | 1,750,000.00 (1) | 1,750,000.00 |
| Serial notes, 3% | — | 250,000.00 (1) | 250,000.00 |
| Current liabilities | 175,108.19 | — | 175,108.19 |
| Customers' advances for construction | 8,581.45 | — | 8,581.45 |
| Miscellaneous reserves | 4,356.59 | — | 4,356.59 |
| Total liabilities and other credits | \$3,886,399.04 | (77,100.00) | \$3,809,299.04 |

() Denotes red figure.

Upon the completion of the proposed refinancing and reorganization, the following capitalization ratios would result:

| | Amount | % of Total |
|----------------------|-------------|------------|
| Common stock equity: | | |
| Par value | \$1,593,600 | 44.01 |
| Capital surplus | 27,653 | .76 |
| Total | \$1,621,253 | 44.77 |
| First mortgage bonds | 1,750,000 | 48.33 |
| Serial notes | 250,000 | 6.90 |
| Total | \$3,621,253 | 100.00 |

| | As of Nov. 30, 1946 | After \$400,000 of Net Additions |
|---|---------------------|----------------------------------|
| Total net plant after deduction of reserves and contributions | \$2,911,735 | \$3,311,735 |
| Per cent bonds of net plant | 60.10% | 52.84% |
| Per cent bonds and notes of net plant | 68.69% | 60.39% |

[4, 5] The debt ratios are higher than desirable, especially in relation to net utility plant which, in essence, is the net bondable property of the Company. The rather marked variance between the ratio of debt to total capitalization and to net bondable property is due primarily to the existence of \$575,528 of current assets in excess of current liabilities which are represented in total capitalization but not in bondable property. This amount

of net current assets is substantially in excess of working capital required for operating purposes. The latter may be estimated approximately as the investment in materials and supplies plus about one-sixth annual operation and maintenance expenses. At November 30, 1946, materials and supplies inventory was \$82,033 and one-sixth of the operation and maintenance expenses for the twelve months ended that date aggregated \$93,046, making

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a total indicated working capital requirement of \$175,079. Thus, at November 30, 1946, the net current assets of the Company were about \$400,000 in excess of the amount necessary for operating purposes. This means that the Company on that date had about \$400,000 available for future construction. Although the application in this proceeding is silent as to prospective property additions, the Commission is satisfied from collateral information in its files that the amount of \$400,000 will be needed for construction purposes.

In view of the high ratio of debt to bondable property which will result on completion of the proposed refinancing, it is our conclusion that the first \$400,-

000 of net property additions made subsequent to November 30, 1946, should be made subject to the lien of the proposed bonds and made unavailable for the issuance of any additional bonds under the indenture securing said bonds. Further, in order that current funds on hand remain available for construction, the certificate herein will provide that no dividends shall be paid pending the completion of the reorganization of the Company.

The income of the Company available for interest and dividends based on operations for the twelve months ended November 30, 1946, both on an actual and pro forma basis, as shown by statements filed with its application, was as follows:

| | Actual | Pro Forma |
|--|-------------|-------------|
| Gross revenues | \$1,111,338 | \$1,111,338 |
| Operation | 521,566 | 521,566 |
| Maintenance | 36,713 | 36,713 |
| Depreciation | 121,829 | 121,829 |
| Operating taxes | 93,742 | 93,742 |
| Income taxes, state and Federal | 97,033 | 112,500 |
| Total operating expenses | 870,883 | 886,350 |
| Net operating income | 240,455 | 224,988 |
| Other income (net) | 12,359 | 12,359 |
| Gross income | 252,814 | 237,347 |
| Income deductions: | | |
| Interest on 5% bonds | 103,850 | — |
| Interest on 3½% bonds | — | 54,688 |
| Interest on 3% notes | — | 7,500 |
| Amortization of debt discount and expense | 12,016 | — |
| Amortization of acquisition adjustments (\$15,000) and nonoperating property (\$5,000) | — | 20,000 |
| Miscellaneous deductions | 2,821 | 2,821 |
| Total income deductions | 118,687 | 85,009 |
| Net income | \$134,127 | \$152,338 |

The gross income of the Company available for interest and dividends and the net income, as reported in the annual reports to this Commission, was as follows for the years 1940 to 1945, inclusive:

| Year | Gross Income | Net Income |
|------------|--------------|------------|
| 1940 | \$192,118 | \$74,076 |
| 1941 | 216,948 | 99,875 |
| 1942 | 182,190 | 63,907 |
| 1943 | 184,904 | 65,661 |
| 1944 | 217,215 | 98,831 |
| 1945 | 270,312 | 151,613 |

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The past record of earnings shows reasonable coverage of the \$54,688 annual interest on the proposed bonds and \$7,500 initial annual interest on the proposed notes. On a pro forma basis for the twelve months ended November 30, 1946, the coverage would be 4.3 times bond interest and 3.8 times bond and note interest combined.

The net income of the Company on a pro forma basis for the twelve months ended November 30, 1946, was \$152,338, which is equal to 9.4 per cent on the total pro forma stock equity of \$1,621,253. The immediate past six years of operation have shown net income varying from approximately \$64,000 to \$152,000, which amounts are before the reduction in interest charges associated with the bond refinancing and would be somewhat higher on a pro forma basis.

Consideration being given the entire reorganization plan of the Company, involving the restatement of its balance sheet, the refinancing of debt, and the changes in its capital structure, we believe the necessary findings may be made and the proper authorizations granted as provided by statute. However, the certificate of authority to issue securities granted herein will require that all the adjustments of the Company's accounts, as set forth in Appendix B hereof, shall be recorded on the Company's books before the issuance of any of the securities herein authorized to be issued.

The Commission finds:

1. That the adjustments of the accounts of the Company, as set forth in Appendix B [omitted herein] hereof, are reasonable and proper and should be recorded on its books.

2. That the proposed issues of (a)

\$1,750,000 of first mortgage bonds, 3½ per cent series, due 1972, (b) \$250,000 of serial notes, and (c) 132,800 shares of common stock of the par value of \$12 per share, making a total issue of \$1,593,600, comply with the provisions of Chap 184, Wisconsin Statutes.

3. That the financial condition, plan of operation, and proposed undertakings of the Company are such as to afford reasonable protection to the purchasers of the securities to be issued.

4. That the reorganization of the Company is consistent with the public interest as contemplated by § 196.79, Statutes.

5. That the terms, conditions, and requirements specified in the certificate hereinafter set forth are reasonably necessary to protect the public interest.

Certificate

It is therefore hereby certified:

That Wisconsin Hydro Electric Company be and is hereby authorized to issue (a) \$1,750,000 principal amount of first mortgage bonds, dated March 1, 1947, maturing March 1, 1972, bearing interest at 3½ per cent per annum, payable semiannually, secured by a first mortgage and deed of trust, dated March 1, 1947, to Title Guarantee and Trust Company and Douglas Winquist, Trustees, and subject to a sinking-fund provision pursuant to which an amount of said bonds equal to 2 per cent of the greatest amount thereof previously outstanding shall be retired annually commencing on May 1, 1952; (b) \$250,000 principal amount of 3 per cent serial notes, dated not earlier than April 1, 1947, and not later than April 10, 1947, and maturing at the rate of

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\$25,000 on October 1, 1947, and \$25,000 on each April 1st and October 1st thereafter until April 1, 1952; and (c) 132,800 shares of common stock of the par value of \$12 per share, making a total par value of \$1,593,600; subject, however, to the following terms, conditions, and requirements:

1. That said \$1,750,000 of first mortgage bonds and \$250,000 of serial notes shall be issued and sold for money only and at not less than the par value thereof and the funds derived therefrom shall be applied to the payment and retirement of \$2,077,000 of first mortgage 5 per cent bonds, due October 1, 1947, or in payment of any short-term loans which may be entered into in connection with the redemption of said 5 per cent bonds.

2. That the first \$400,000 of net additions to bondable property made subsequent to November 30, 1946, shall be subject to the lien of the mortgage bonds herein authorized and such property additions shall not be used for the purpose of obtaining the issuance of any additional bonds under the indenture securing said bonds.

3. That said \$1,593,600 par value of common stock shall be issued at not less than the par value thereof in exchange for (a) 11,952 shares of 6 per cent preferred stock presently outstanding, having a total par value of \$1,195,200, including all rights or claims to accumulated unpaid dividends thereon and (b) 10,552 shares of common stock presently outstanding having a total stated value of \$1,055,200.

4. That, upon the issuance of said \$1,593,600 par value of common stock as aforesaid, the presently outstanding 11,953 shares of preferred stock, including one share of said preferred

stock to be acquired for cash, and 10,552 shares of presently outstanding common stock shall be retired and canceled to the end that the total capital stock authorized to be issued and outstanding by this Commission shall not exceed said \$1,593,600 par value of common stock. Thereupon the reduction of the total par or stated amount of capital stocks outstanding, amounting to \$656,800, shall be credited to Account 270, Capital Surplus, and there shall be appropriated from such capital surplus and credited to Account 271, Earned Surplus, such amount as will be equal to the deficit in Account 271 after making the adjustments required by condition (5) hereof. Any balance then remaining in Account 270, Capital Surplus, shall not be available for the payment in cash of any dividends on common stock.

5. That the adjustments of accounts as set forth in Appendix B [omitted herein] attached hereto and made a part hereof, shall be recorded in the books of account of the corporation, and verified copies of the entries recording such adjustments filed with the Commission before the issuance of any of the securities herein authorized to be issued; provided that the amount of such adjustments may be modified to give effect to changes arising from normal accounting routines from November 30, 1946, the date of the adjustments listed in Appendix B, to the date of the actual recording of the adjustments on the books.

6. That, commencing with the calendar year 1947, the Company shall (a) charge Account 537, Miscellaneous Amortization, with the amount of \$15,000 per year until the remaining balance of \$73,020.36 included in Ac-

RE WISCONSIN HYDRO ELECTRIC CO.

count 104, Utility Plant Acquisition Adjustments, is completely amortized and (b) charge Account 537, Miscellaneous Amortization, and credit Account 253, Reserve for Depreciation and Amortization of Other Property, with the amount of \$5,000 per year until the net book value of \$40,475 of property previously carried in utility plant held for future use shall have been reduced to estimated realizable value.

7. That, pending the completion of the reorganization and recapitalization of the corporation as set forth herein, Wisconsin Hydro Electric Company shall not pay, or accrue for payment, dividends on any of its capital stock.

8. That Wisconsin Hydro Electric Company shall file with the Commission not later than thirty days after the

issuance of the securities herein authorized, or any of them, a verified report showing the facts in relation to such issuance and the disposition of the proceeds therefrom together with two conformed copies of the mortgage and deed of trust securing the bonds to be issued.

9. That Wisconsin Hydro Electric Company shall not issue the securities herein authorized or receive any money therefor, either directly or indirectly, until this certificate shall have been recorded upon the books of the corporation.

10. Jurisdiction is retained pending the completion of the recapitalization and reorganization as authorized herein to issue such further order in the premises as may be necessary or appropriate.

SECURITIES AND EXCHANGE COMMISSION

Re The United Corporation

File Nos. 54-33, 59-25, Release No. 7191

February 10, 1947

APPPLICATION for modification of order requiring stockholder approval of conversion by holding company to an investment company; modification allowed but jurisdiction reserved to require vote if necessary.

Corporations, § 15.2 — Stockholder vote — Elimination of holding company — Change to investment company.

The Commission, in passing upon an application for modification of an order requiring stockholder approval of a holding company's plan to become an investment company, so as to eliminate the necessity of a favorable vote by preferred stockholders, ruled that a vote limited solely to common stock would not be inconsistent with the principles governing the previous requirements, since the company had retired 54 per cent of the preferred stock and hoped to complete its retirement soon, but the Commission retained jurisdiction to require a further vote of stockholders if the situation should

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change so materially as to require such a vote before the holding company ceased to be a holding company.

APPEARANCES: Richard Joyce Smith, of Whitman, Ransom, Coulson & Goetz, and John J. Burns, of Burns, Blake & Rich, for The United Corporation; Randolph Phillips, pro se; William R. Nowlin, for the Public Utilities Division of the Commission.

By the COMMISSION: On January 9, 1947, The United Corporation ("United"), a registered holding company, filed an application requesting that we modify, in the respect noted below, our findings and opinion issued on August 14, 1943, pursuant to §§ 11(b)(2) and 11(e) of the Public Utility Holding Company Act of 1935, 15 USCA § 79k(b)(2), (e) ("the Act").¹ After appropriate notice, we held oral argument on February 3, 1947, at which counsel for United appeared in support of the application and Randolph Phillips, a common stockholder, urged that we either dismiss the application or direct that hearings be held thereon.

In our earlier opinion, we found that United performed no useful function with respect to its subsidiaries and that its corporate existence was an unnecessary complexity in the holding company system of which it is a part. We also found that the corporate structure of United unnecessarily and inequitably distributed voting power between United's common stock and the system securities generally as well as between United's preferred and common stock. We were of the opinion that dissolu-

tion of United was appropriate, but in the light of United's expressed desire to become an investment company, we withheld entry of an order of dissolution at that time and merely ordered that United cease to be a holding company and correct its inequitable distribution of voting power through recapitalization on a one-stock basis. With respect to United's stated intention to become an investment company we said (13 SEC 854, at 899, 900, 50 PUR(NS) at pp. 252, 253):

"Abandonment of United's present business as a public utility holding company and embarking upon a new type of business, whether that of investment company or any other type of business, involves a drastic change in the activities of the company. Such a change will devote the funds which security holders have invested to a purpose different from that for which they were contributed. It would seem necessary that United should consult its security holders before embarking on such a program. In the light of the existing maldistribution of voting power and for other reasons, we believe no such program would be fair which does not require majority approval either of the present preferred and common stock voting by classes, or of the new common stock, should United choose to recapitalize on a one-stock basis before seeking stockholder approval of the proposed new venture. The literature soliciting such approval would, of course, be subject to our scrutiny."

The present application asks us to

¹ Re The United Corp. (1943) 13 SEC 854, 50 PUR(NS) 212.

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"modify" the above-quoted finding so as to eliminate the necessity of a favorable vote by a majority of the preferred stockholders voting as a class on a program to become an investment company which United states it has formulated and which it proposes to submit for the approval of common stockholders at an annual meeting to be held on April 9, 1947. United states that since August 14, 1943, *supra*, it has retired about 54 per cent of its \$3 cumulative preference stock and that it hopes to complete the retirement of the balance within the next twelve months. In view of this prospective retirement of the preferred stock, United urges that it is appropriate that any vote on its proposed plan be limited to the common stockholders only.

United has not filed with us the program which it proposes to submit to its common stockholders, nor have we been informed of the contents of such program. The program, we are told, will be filed with us pursuant to Rule U-62 in the event this application is approved. So far as we have been able to determine, United wishes to obtain an expression of the views of its stockholders as to whether it should embark upon a program for future operations of the company after it has ceased to be a holding company and after all of its presently outstanding preferred stock has been retired or provision made for its retirement in accordance with our order of August 14, 1943. As we indicated in our findings and opinion accompanying that order, fairness would require that stockholder approval precede any drastic change in the activities of the company.

While we agree with United's premise that stockholder approval should

be limited to the class of stockholders which will have an interest in the company after the proposed change is to take place, we see no necessity for a formal or technical "modification" of the 1943 findings and opinion. That opinion was intended to indicate that before United might embark upon a new type of enterprise in succession to its moribund holding company activities, holders of shares, of whatever class, representing investment that would be carried over into the new enterprise should, in fairness to them, have an opportunity to vote on the proposed change in the character of the company's operations. The description in that opinion of the class vote that might be required was merely illustrative of that principle in circumstances where both preferred and common would participate in the projected investment company. That illustration did not specifically refer, nor does it apply, to the situation which forms the basis for the present proposal. It now appears that the preferred stock is to be retired or provision made for its retirement before any substantial change in operations is undertaken. In such a situation, if the proposal for continued modified operations after compliance with the Act can be plainly forecast, we believe that a vote limited solely to the common stock would not be inconsistent with the principles governing the requirements stated in our previous findings and opinion.

The application now before us does not provide information essential to any conclusive decision whether such a vote taken at this time would satisfy the requirements of fairness. However, United proposes to seek such a

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vote at its forthcoming annual meeting of stockholders and, admittedly, the purpose of this application is to aid in clearing the way for the taking of such a vote.

United claims that before embarking upon the proposed new venture, there are extensive preparations and preliminary arrangements that must be made and that its management cannot intelligently proceed with the making of such preparations, unless there is at least a reasonable assurance that the new venture will actually be undertaken. United further claims that it is therefore appropriate and necessary to ascertain the sentiments of the common stockholders, as soon as it can be properly done, so that United may be guided thereby in its determination whether to make these necessary preparations. This, as we understand it, is the purpose of the proposed vote.

There appears to us to be sufficient substance to these contentions to justify the management's endeavor to obtain an indication of the common stockholders' present views on the subject.

As to the significance of such a vote, however, two difficulties confront us. In the first place, there is the question whether the facts that can now be disclosed to such stockholders will be adequate to permit them to make an informed judgment concerning the advisability of entering upon the new venture. Secondly, there exists the possibility that conditions may materially change before United has ceased to be a public utility holding company.

As to the first of these questions, we are not presently called upon to ex-

press any opinion. United states that it will be prepared to submit to us the material to be furnished to the stockholders under the provisions of Rule U-62. When this is done, we shall have before us this precise question and will pass upon it in the light of the material so furnished and the facts set forth therein. At that time we shall also have to consider whether the proposed program or any part thereof requires consideration and approval by us under § 11 or other statutory provisions prior to the taking of a stockholder vote.

As to the second question, it is obviously impossible to draw any final conclusions until United has at least substantially completed the steps necessary to cease to be a holding company in compliance with our previous order. Only when that has occurred, will we be in a position to know the extent and nature of the changes resulting from such compliance. Accordingly, nothing said herein should be construed as precluding us from requiring another vote of stockholders if, at or about that time, it appears to us that the situation has so materially changed that fairness requires that the stockholders be afforded a further opportunity to vote on the proposed program at that time.

It should further be emphasized that we retain full power to enforce compliance by United with our findings, opinion, and order of August 14, 1943, 13 SEC 854, 50 PUR(NS) 212, under all applicable provisions of the Act, including the possible issuance of a dissolution order or the imposition of appropriate terms and conditions.² And

² In this connection we note that United's counsel stated at the oral argument: "The 68 PUR(NS)

granting of this application leaves this Commission just as it is now and the granting of

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it should be pointed out that if a stockholder's vote is taken, such vote will not deprive the stockholder of any of his rights with respect to any plans which United may file under the Act for the purpose of complying with such findings, opinion, and order.

To summarize briefly, while we see no objection to limiting a vote to common stockholders, we express no opinion as to the possibility of adequately presenting the facts and issues to the stockholders at the time, and will pass upon that issue in connection with an appropriate declaration under Rule U-

62; and, if a vote is taken at this time, we expressly reserve full authority to require another vote if conditions materially change before United ceases to be a public utility holding company and, as a result of such changed conditions, it appears to us that fairness requires another vote of stockholders at that time.

We have considered the contentions made by Phillips in his letter and in oral argument and, except to the extent indicated herein, we find them to be without substance.

SECURITIES AND EXCHANGE COMMISSION

Re Middle West Corporation et al.

File No. 54-81, Release No. 7078
December 18, 1946

APPPLICATION by holding companies for authority to employ securities dealers to solicit exchanges of securities provided in plan approved under § 11(e) of the Holding Company Act; granted.

Security issues, § 111 — Solicitation of exchanges — Employment of solicitors.

Authority to employ securities dealers to solicit exchanges of publicly held preferred stock of holding companies for common stock of a new company was granted where this was designed to facilitate consummation of a merger plan approved pursuant to § 11(e) of the Holding Company Act, 15 USCA § 79k(e), where the exchange of a large percentage of the stock would have a direct bearing on the price which might be bid for new common required to be sold to retire unexchanged preference stock, where the greater the number of exchanges, the less common stock would have to be underwritten and the lesser degree of risk would be reflected in a higher bid, where the securing of a satisfactory price was essential to the fairness and feasibility of the plan, and where the proposed dealers' commission was reasonable.

the application doesn't take away one single power of this Commission to impose conditions or do anything that is required in its best judgment, in the administration of the

Act, to be done prior to our being judicially, by this Commission, declared no longer to be a holding company."

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APPEARANCES: George Roberts, of Winthrop, Stimson, Putnam & Roberts, New York city, for Central and South West Utilities Company and American Public Service Company; Ralph D. Stevenson, Chicago, Illinois, for The Middle West Corporation; Stephen S. Bernstein, of McLaughlin & Stern, New York city, for common stockholders committee; Samuel Mehlman, New York city, for himself and other preferred stockholders of Central and South West Utilities Company; Jerome M. Alper, for the Public Utilities Division of the Commission.

By the **COMMISSION:** The Middle West Corporation ("Middle West"), its subsidiary, Central and South West Utilities Company ("Central"), and the latter's subsidiary, American Public Service Company ("American"), all of whom are registered holding companies, have filed a joint declaration requesting authority to employ securities dealers to solicit exchanges of the publicly held preference stocks of Central and American (i. e., Central's \$7 prior lien and \$7 preferred stocks and American's 7 per cent preferred stock) for common stock of a new company, Central and South West Corporation. The solicitation is proposed for the purpose of implementing a plan of reorganization filed pursuant to § 11(e) of the Public Utility Holding Company Act of 1935, 15 USCA § 79k(e) ("the Act") and approved by us on April 30, 1946,¹ and by the United States district

court for the district of Delaware on June 19, 1946.²

The plan provides for the merger of Central and American into the new company and for the reclassification of the preference and common stocks of Central and American into a single class of common stock in the new company. The plan further provides, in substance, (1) for a cash payment to the publicly held preference stocks of Central and American, or at the option of the holder, for the exchange of such preference stocks, on the basis of such cash payments, for new common stock at the price established for such new common stock as is offered at competitive bidding to provide the funds required to retire the unexchanged preference stocks, and (2) for the distribution to public holders of Central's common stock of their pro rata share (38.96 per cent) of the remaining new common.³ The plan provides that Middle West will exchange all of its holdings of preference stocks of Central and American for the new common.

After appropriate notice, the declaration was set down for hearing and argument before the Commission. No testimony was taken and, in reaching our conclusions, we have relied only on the documents in the record and on those facts presented at the hearing and argument as to which there was no disagreement by the parties.

The Proposed Solicitation

The declaration states that Central proposes to mail a letter, on or about

mon in settlement of certain claims asserted against Middle West. For a detailed statement of the plan, see our opinion approving it (1946) Holding Company Act Release No. 6606, *supra*, note 1.

¹ Holding Company Act Release No. 6606, 64 PUR(NS) 321.

² In Re Central & S. W. Utilities Co. 66 PUR(NS) 166, 66 F Supp 690.

³ The public holders of Central's common stock will also receive additional new common PUR(NS)

RE MIDDLE WEST CORPORATION

December 30, 1946, to the public holders of the preference stocks, notifying those holders who desire to exchange their shares for new common to deposit their stock certificates with one of the designated exchange agencies prior to the close of business on January 17, 1947, Central reserving the right to extend the exchange period for not exceeding four days. The deposits are to be irrevocable; however, if the merger provided for in the plan of reorganization does not become effective by February 17, 1947, the deposited certificates will be returned promptly to depositors, unless we authorize their further retention.⁴ On January 17, 1947, Central proposes to invite bids pursuant to our competitive bidding rule (Rule U-50) for the purchase of sufficient shares of new common to raise the funds required to retire the unexchanged preference stocks. Such bids would be opened on January 27, 1947. Since Central proposes that the stock be publicly offered by underwriters on January 30, 1947, it has requested that the hearing on the price and spread be held on January 27 or 28, 1947, and that we enter our order on or before the latter date.

Central further proposes, in order to facilitate the exchange of the publicly held preference stocks for new common, to enter into a "best-efforts" agreement with Lehman Brothers and Lazard Freres & Co., who will form and manage a group of securities dealers to solicit exchanges. Central will pay such dealers (including the man-

agers) compensation of \$1.75 per share on exchanges they procure of Central's \$7 prior lien stock and American's 7 per cent preferred stock and \$3.25 per share on exchanges of Central's \$7 preferred, with the understanding that if the contemplated merger of Central and American is not effected the compensation will be reduced by one-half.⁵ No compensation will be paid to the managers of the dealers' group for their services as managers, but Central will reimburse them for reasonable out-of-pocket expenses, including fees and expenses of counsel.

Copies of the letter of solicitation to be sent by Central to the public holders of the preference shares, the letter of transmittal to be executed by holders accepting the exchange offer, the proposed agreement between Central and the managers of the dealers' group, and the proposed agreement between the managers and the soliciting dealers, have been filed.

In urging the approval of the proposed solicitation program, declarants point out that the exchange of a large percentage of the preference stocks has a direct relation to the sale at a satisfactory price of the shares of new common stock required to be sold to retire the unexchanged shares⁶ and that an orderly arrangement for the organization of securities dealers and the payment of compensation to them will greatly facilitate such exchanges. In this connection, it may be noted that as of November 25, 1946, there were

⁴ It is stated that, if the plan is consummated, new common stock will be mailed to the depositors about March 1, 1947.

⁵ No compensation will be paid in connection with the exchange of preference shares to be made by Middle West.

⁶ The aggregate amount payable to the publicly held preference stocks is approximately \$25,000,000, at December 31, 1946.

SECURITIES AND EXCHANGE COMMISSION

7,648 public holders of the Central and American preference stocks, residing in almost every state of this country as well as in foreign countries, and of these holders 5,363 held from 1 to 10 shares.⁷

The declarants stated that they fixed the compensation proposed to be paid to the soliciting dealers with the intention of securing the benefit of the dealers' coöperation at a reasonable cost. Such compensation was fixed at approximately 1½ per cent of the face amount of the preference stocks to be solicited for exchange.

Under the circumstances, we have determined to permit the declaration, including the payment of compensation and expenses to the dealers' group, to become effective. The declaration is designed to facilitate consummation of a plan which we and the district court have approved. The exchange of a large percentage of the publicly held preference stocks has a direct bearing on the price which may be bid for the new common required to be sold to retire the preference stocks which are not submitted for exchange. The greater the number of exchanges, the less common stock will have to be underwritten, and the lesser degree of risk should be reflected in a higher bid. And since, as more fully pointed out later, the securing of a satisfactory price is essential to the fairness and feasibility of the plan, reasonable expenditures incurred in the solicitation

of such exchanges are proper. Cf. *Re Cities Service Co.* (1942) 11 SEC 943, 958 et seq. We do not find the amount of the proposed dealers' commissions to be 'unreasonable. The larger compensation to be paid dealers on exchanges they procure of Central's \$7 preferred stock appears to be warranted in the light of the higher amount payable on such stock, which results from large accumulated and unpaid dividend arrearages.⁸

Our order will provide that no compensation shall be paid to the managers of the dealers' group or to the dealers participating in the group in respect of exchanges on preference stocks beneficially owned by either the managers or any of the participating dealers. We shall reserve jurisdiction to pass on the reasonableness of such expenses and fees (other than the dealers' commissions noted above) as may be payable in connection with the solicitation, including the managers' expenses and attorneys' fees.

We do not believe it necessary in the instant case to prohibit the managers and participating dealers from engaging in the purchase and sale of the securities of the declarants or of the new company or from rendering investment advice with respect to any such securities, and our order will exempt both the managers and the dealers from the provisions of Rule U-62(g).⁹ Our order will also provide for such additional exemption

⁷ To the extent that certain of these stockholders may hold more than one class of the preference stocks, the figures noted in the text may be overstated.

⁸ At December 31, 1946, the amount payable, including unpaid dividend arrearages, on Central's \$7 preferred is \$222,375, on its \$7 prior lien preferred is \$120,875 and on American's 7 per cent preferred is \$129.25.

⁹ Rule U-62 (g), in substance, prohibits any persons making a solicitation in connection with a reorganization to buy or sell or give investment advice with respect to securities of a company in reorganization, or of any of its subsidiary or associate companies.

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from Rule U-62 as is appropriate in the light of our findings herein.

Our order will also provide for an extension of time of sixty days in which the transactions proposed in the plan may be consummated. Our initial order approving the plan required its consummation within sixty days of court approval. By subsequent orders, however, we extended to October 19, 1946, and, later, to December 19, 1946, the time within which consummation was to be effected.

Objections of Holders of Central's Common Stock

The committee representing the public holders of Central's common stock contends that unfavorable changes have occurred in market and underwriting conditions since the plan was approved, and that consummation of the plan on the basis of current market conditions would result in unfair treatment of the public holders of Central's common. The committee further asserts that consolidated earnings of the new company for 1946 which they now estimate at \$9,000,000¹⁰ substantially exceed the estimates we had before us when we approved the plan, that because of the increased earnings the new company will be in a position to pay an annual dividend on the new common in excess of the 70 cents per share as proposed, and that, if the larger dividend were proposed, it is more likely that the price received at competitive bidding would be such as to make the plan fair and equitable. The committee requested an additional hearing for the purpose of offering evidence in

support of these assertions. The committee has also stated that adequate notice and opportunity for hearing with respect to the price offered pursuant to competitive bidding will not be afforded to interested persons under the time schedule proposed by the declarants.

As we have pointed out, the number of shares of new common to be received by holders of the preference stocks who elect the exchange option, as well as the number of shares of new common that will have to be sold to provide funds for the cash payments to the unexchanged preference shares, will depend upon the price received for the shares offered at competitive bidding. This price will, in turn, also bear directly on the participation of the public holders of Central's common stock for they are to receive a pro rata share of the new common remaining after the preference stocks have been satisfied, whether through exchanges or by cash payment. As we pointed out in our findings approving the plan (Holding Company Act Release No. 6606, 64 PUR(NS) 321, 354):

"Obviously, the Plan would not be feasible or fair if payment of the preference shares at their call prices required the sale of substantially all of the common stock of the new company . . . However, we deem the Plan fair in its present form and we are not prepared to state under other circumstances what we would consider a minimum level or floor below which the Plan would become unfair. We do not wish, unnecessarily, to create a problem which does not now exist and may never come into being.

"The number of shares of the com-

¹⁰ Central states that this estimate should be \$8,500,000.

SECURITIES AND EXCHANGE COMMISSION

mon stock of the new company that will be available to the public holders of common stock of Central will depend on at least four factors, namely, the sales price of the new common stock at competitive bidding, the number of shares of preference stocks exchanged, the amount of the spread between the public offered the company and the public offering price, and the period of time between now and the date of acceptance of a bid. We must pass on the price and spread established by the competitive bidding when the results are known. If, in the light of the facts as they then exist, the Plan has become unfair, we shall take proper steps to modify our order."

It is our view, therefore, that the action proposed herein in aid of the plan should not be delayed at this time because of speculation and conjecture as to the price that will be offered for the new common. Only after bids have been received on the common, will we be in a position to know the actual participation to be received by the public holders of Central's common and to determine whether consummation of the plan should be permitted.

We conclude, therefore, that since the committee's contentions relate principally to the adequacy of the price that may be offered for the new common stock, their assertion is premature and the evidence which they have offered to introduce is not relevant at this time. Moreover, such evidence

would be of market conditions as of this date, which are obviously not determinative of market conditions as of the date of the bidding. After the bids on the new common stock are opened, the committee will have an adequate opportunity to be heard at the hearing relating to the fairness of the price and spread proposed by the successful bidder.¹¹ We shall give appropriate notice of such hearing prior to the date that the bids are opened. Of course, such notice could not itself include the terms of the successful bid. The terms of the bid, however, will be released to the press and will become a matter of public information on the day the bids are opened. In addition, any interested person can ascertain this information by inquiry to this Commission.

We shall endeavor to cooperate with the declarants and abide by the time schedule they have proposed. Since this schedule contemplates our entering an order on January 28, 1947, and the consummation of the contract with the successful bidders on January 30, 1947, provided we approve the price and spread and consummation of the plan, the committee will not only be afforded an opportunity to present its views at a hearing before us, but it will also have an opportunity, subsequent to our order and prior to the proposed date of consummation of the plan, to seek such further relief as it may deem appropriate.¹²

An appropriate order will issue.

¹¹ In this connection, it should be noted that one of the factors bearing on the fairness of the price would be the amount of stock covered by the bid.

¹² We are advised by the United States District Court for the District of Delaware, which

approved the plan of reorganization, that it will be available on January 29, 1947, to consider such matters as may be presented to it with respect to any order we may enter approving the price offered pursuant to the competitive bidding.

RE ATLANTA GAS LIGHT CO.

GEORGIA PUBLIC SERVICE COMMISSION

Re Atlanta Gas Light Company

File No. 19367-1, Docket No. 7863-A
December 31, 1946

RULE NISI to natural gas distributing company to show cause why its rates should not be reduced; interim rate reduction ordered.

Service, § 332 — Gas distributing company — Firm gas.

1. A local gas distributing company is responsible for making necessary arrangements, in order to supply the requirements of its customers, if a wholesale company fails in its obligation to provide an adequate supply to permit each customer to contract for such amounts of "firm gas" as he may reasonably require at the fair cost of delivering such firm gas to him, p. 26.

Rates, § 143 — Reasonableness — Cost of gas service — Distributing company.

2. Rates prescribed for a natural gas distributing company, in order to pass on to customers at least the amount of a rate reduction for wholesale supply, should cover the cost of gas purchased, with some margin to provide for the expense of distributing the gas, but the state Commission is not bound to follow the rate pattern prescribed for the wholesale company by the Federal Power Commission, p. 27.

Rates, § 386 — Contract for noninterruptible gas service — Interruptible provision.

3. A natural gas distributing company may not revise its schedules so as to place large industrial consumers on an interruptible basis, where such consumers have contract rights to purchase noninterruptible gas, until such time as the gas supply is adequate, p. 27.

Rates, § 125 — Reasonableness — Ability to pay.

4. The Commission, in authorizing a natural gas distributing company to revise its rates, refused to make effective the increase in cost of gas to present commercial space-heating customers until after the present heating season, in view of the fact that the majority of these customers were apartment-house owners whose rents had been frozen for several years and who could not absorb increased costs, p. 27.

Rates, § 125 — Reasonableness — Charitable institutions — Ability to pay.

5. Proposed increased natural gas rates for charitable or privately supported orphanages or higher educational institutions were deemed unreasonable, and existing rates were frozen in their application to these users, since these institutions were supported largely from limited funds and any substantial increased costs would impose an unreasonable burden which they would not be in a position to absorb, p. 27.

Discrimination, § 59.1 — Published schedules — Low-cost housing projects.

6. A company delivering natural gas to low-cost housing projects under special contracts should establish a published rate schedule for such projects in the same manner as published schedules are established for all other customers, p. 27.

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Fines and penalties, § 10 — Penalty charges — Failure to comply with curtailment order.

7. The establishment of a penalty charge against a natural gas consumer for failure to comply with the company's curtailment order is highly unsatisfactory and should be eliminated from the rate schedule, p. 27.

Rates, § 637 — Trial period — Reasonableness — Cost of service.

8. A smaller natural gas rate reduction for a distributing company than that indicated as justifiable from the testimony should be prescribed for a limited period, to be reviewed and reconsidered at the end of that period when experience will show the amount of reduction in cost actually realized, as well as the effect of interim rates to be prescribed, where the company will immediately experience increased operating expenses consisting principally of increases in salaries and wages and the adoption of a retirement plan for employees and where it is uncertain of the amount of a reduction in the cost of purchased gas which will actually be realized, p. 27.

Rates, § 386 — Natural gas — Dump rates.

Statement that a dump rate schedule for large industrial use of natural gas, with a demand charge applicable to all gas delivered on a firm basis, would be acceptable, if reasonable in amount, but the fact that a distributing company does not have enough gas to furnish firm requirements makes it a rate primarily for interruptible service, which should not be applied to industrial consumers having contracts for noninterruptible service, p. 27.

APPEARANCES: Warren Moise, Counsel, R. G. Taber, President, D. A. Crawford, Vice President, C. F. Johansen, Treasurer, R. F. Carney, Asst. Treasurer, D. D. Beach, Industrial Engineer, D. C. Waters, Asst. Chief Engineer, E. D. Carswell, Asst. to President, L. J. Gaissert, Engineer, and Charles Ashby, Stone & Webster Service Corp., for the Atlanta Gas Light Company; Edgar Watkins, Counsel, Chadwick N. Heath, Executive Secretary, Southern Brick & Tile Manufacturers Association, Thomas C. Hines, Vice President, Oconee Clay Products Co., Joseph Haas, Atlanta Laundries, Inc., Charles J. Bloch, Counsel, The Block Corporation, Howard H. Arnold, Boyd White, Atlanta Real Estate Board, J. M. Neal, Counsel, Thompson-Weinman Company, Glidden Company, Evans-Smith Company, and Chemical Products Company, F. A. Perkins,

Southern Cotton Seed Oil Company, W. Frank Jones, Peachtree Hills Apartment, George Hightower, Thomaston Mills, Raymond Nelson, H. M. Patterson & Company, T. M. Forbes, Cotton Manufacturers Association of Georgia, King Bailey, apartment owner, John Acheson, National Biscuit Company, William Freeman, Bessie Tift College, John W. Dent, Thompson-Weinman Company, F. F. Lester, Chemical Products Company, D. F. Lewis, Georgia Kaolin Company, Kenneth W. Dunwoody, Vice President and General Manager, Cherokee Buick Company, Henry K. Burns, Burns Brick Company, T. Baldwin Martin, Counsel, Mercer University, and George Hamilton, Federal Public Housing Administration, for natural gas consumers; N. Knowles Davis, Chief Engineer, O. S. Vogel, Valuation Engineer, R. B. Alford, Service Engineer, and H. H.

RE ATLANTA GAS LIGHT CO.

Cabaniss, Auditor, for the Commission.

By the COMMISSION: On December 28, 1945, the Commission issued a rule nisi against the Atlanta Gas Light Company requiring it to show cause why the Commission should not prescribe reduced rates for natural gas service. This proceeding was originally assigned for hearing on February 14, 1946, but was continued and partially heard on April 10, 1946, on which date it was further continued subject to reassignment on five days' notice. Other hearings were held on September 12th and 23rd and concluded on October 2, 1946. At the same time this rule nisi was issued, the Commission adopted a resolution calling on the Federal Power Commission to proceed with its investigation which had been pending for several years without action, looking toward the reduction of wholesale rates charged the Atlanta Company by the Southern Natural Gas Company.

Responsive to the action of the Georgia Commission, the Federal Power Commission in an informal proceeding called on the Southern Natural Gas Company for a reduction in rates and in response thereto that company filed revised rates for the sale of gas to distributing companies. The rates filed by Southern Natural Gas Company have been accepted by the Federal Power Commission, but this Commission is opposed to the form of rates established. Prior to the revision of purchase rates all gas sold to the Atlanta Company was billed on a commodity basis, the applicable rate depending on the ultimate use of the gas. The new rate contains a demand charge of \$1.40 per thousand cubic

feet per day for "firm gas" plus a commodity charge of 11 cents per thousand cubic feet for all firm gas delivered. In addition a dump or "interruptible gas" rate of 14 cents per thousand cubic feet without a demand charge has been established for all interruptible gas delivered. According to the Federal Power Commission, the application of this new purchase rate indicates a reduction of some \$700,000 in the cost of gas to the Atlanta Company, based on maximum demands established and quantities of gas delivered in 1945. It so happened that there was no very cold weather in that calendar year with the result that the demand for gas on the pipe line was substantially less than would have occurred in very cold weather. According to the testimony, the coldest day in 1945 was on December 20th when the average mean temperature was 24° F. and it was further testified that lower mean temperatures are generally experienced during winter periods than that, therefore, the actual reduction in cost of gas will be less than the calculated amount if more normal winter weather is experienced. As a matter of fact, under the new rate the Atlanta Company has paid \$43,158 more from May to November inclusive (the period during which the new rate has been in effect) than would have been paid under the former rate, although some offsetting reduction may likely result during the remaining winter months.

While the effect of the Federal Power Commission revision is to bring about some reduction in the over-all cost of gas purchased by the Atlanta Company, the demand charge in the new rate which is applicable through-

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out the year, increases the cost of gas purchased for seasonal space heating use. The cost of firm gas purchased for resale to large industrial users is also increased since under the former wholesale rates, the price of gas resold to large industrial consumers was determined by the rate charged the ultimate consumer. In other words, gas sold to a very large industrial user at a relatively low rate was purchased at a correspondingly lower rate by the Atlanta Company, while under the new pipe-line rates, all firm gas is sold to the Atlanta Company at one rate and all interruptible gas at another rate both irrespective of relative volume. While the cost of purchased gas resold to smaller industrial users on a firm basis is reduced, that which is resold as firm gas to large consumers is substantially increased. In addition, Southern Natural Gas Company has provided in its terms and conditions applicable to the new purchase rates that all gas sold any ultimate consumer who uses over 200,000 cubic feet per day must be on an interruptible basis irrespective of the former contract rights of the consumer to purchase noninterruptible gas. It is alleged that the capacity of the natural gas pipe line into Georgia is inadequate to meet the present demand for natural gas and while the Commission has not made an investigation into this question, this appears to be true. This is advanced as the reason why large users must now contract for interruptible gas.

[1] In the opinion of the Commission, it is Southern Natural Gas Company's responsibility to provide an adequate supply of natural gas to the local distributing company, and each

natural gas consumer should have the privilege of contracting for such amounts of "firm gas" as he may reasonably require at the fair cost of delivering such firm gas to him. However, if Southern Natural Gas Company fails to meet its requirements to the public in this regard, it will be the responsibility of Atlanta Gas Light Company to make necessary arrangements in order to supply the gas requirements of its consumers. This could be accomplished by the installation of peak shaving equipment, by the installation of standby equipment using another fuel during periods of extremely cold weather when the demand for gas is high, or by the installation of both. While the Commission recognizes the impracticability for either the Atlanta Gas Light Company or Southern Natural Gas Company to make necessary provisions for increased capacity during this winter, it will be necessary for the Atlanta Company either to make arrangements with its supplier for an adequate supply, or to obtain an additional supply from another source, or to procure and install such equipment as is reasonably required in order to meet the total firm gas requirements of its consumers including gas sold on firm rate schedules plus such reasonable amounts of gas which larger industrial users wish to contract for on a firm basis.

Prior to the September 12, 1946, hearing, the Commission by letter individually notified all gas consumers of the Atlanta Gas Light Company (except those served on the General Rate which is herein reduced) that the company had filed proposed rate schedules for natural gas service in response to the citation of the Commission.

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This notification advised each consumer of the actual effect of the proposed rates on his cost of gas and the time and place of the scheduled hearing in order that anyone might give the Commission his views regarding the suggested rates. In addition, all consumers using over 200,000 cubic feet per day were individually advised as to the provisions of the proposed interruptible gas rate applicable to their service and the effect of this rate based on a specific quantity of "firm gas" to be delivered. These letters were sent to all consumers irrespective of whether the revision in rates would increase or decrease the cost of gas.

A large number of gas consumers were represented at the hearing and many others wrote letters to the Commission objecting to the new rates proposed. Consumers classified as interruptible and building space heating consumers expressed the strongest objections to the rate changes. The former group expressed concern regarding the inability to obtain firm and continuous gas service under the proposed terms and conditions, and regarding the substantial increase in cost of gas which might be procured on a firm basis and they further objected strenuously to the penalty provision in the new rate which applied if curtailments were not effected when requested by the company. This group also contended that as more gas was sold to other classes of users the number and length of interruptions would increase to such an extent as to cause serious consequences. Space-heating consumers objected to the substantial increases proposed in the cost of gas for building space-heating purposes. The majority of these consumers are apart-

ment-house owners who pointed out that rents had been frozen for some four years without any relief whatsoever, and that they could not absorb further increased costs such as the new gas rates would bring about.

[2-8] The immediate problem is to prescribe and establish new rate schedules for natural gas service which will pass on to ultimate consumers at least the amount of reduction in cost of gas estimated to be realized by the Atlanta Gas Light Company. The Commission does not feel that it is necessary to follow the rate pattern of the Federal Power Commission in prescribing rates for gas sold by the Atlanta Company, but the rates prescribed should cover the cost of gas purchased with some margin to provide for the expense of distributing the gas. It is difficult, however, to prescribe new rates for all classes of service without actual experience as to the effect of the new purchase rates. The Atlanta Company proposes a dump rate schedule for large industrial use of gas with a demand charge applicable to all gas delivered on a firm basis. This form of rate, if reasonable in amount, is acceptable, but the fact that the Atlanta Company does not have enough gas to furnish firm gas requirements of its customers makes this schedule a dump rate, or, in other words, a rate primarily for interruptible service.

In view of this situation it is the opinion of the Commission that the present contract rights of the industrial consumers should not be disturbed until such time as gas supply is adequate. Consequently this order will provide for freezing the present rates and present contract provisions in so far as present consumers using more than 200,-

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000 cubic feet per day are concerned. The new large use industrial schedule proposed by the company will be authorized as an optional rate for present consumers and while it is not the purpose of the Commission to approve the rate for new consumers, it will be authorized for application to new consumers on a trial basis for an interim period. This freezing of present rates will continue for a period of one year at which time the whole matter will be reviewed by the Commission.

The original rate proposals submitted by the company had a serious adverse effect on commercial space-heating customers. The record discloses that the new purchase rates as accepted by the Federal Power Commission will increase the cost of gas bought and resold for space-heating purposes from 30 cents to approximately 35 cents per thousand cubic feet due to poor load factor or part time use of gas for such purposes; that the present average selling price is $34\frac{1}{2}$ cents per thousand cubic feet and that unless the space-heating rate is increased this gas will be sold for less than its purchase cost. Under the new rate the average price to ultimate consumers will be approximately 39 cents per thousand cubic feet. The commercial rate herein prescribed has a 35 cents per thousand cubic feet step which the Commission has added for all gas used in excess of 50,000 cubic feet per month and which materially reduces the increases in the cost of space-heating gas below that originally proposed by the company. The space-heating consumers largely based their objections to the increased cost on the freezing of rents and for this reason this order will not make effective the increase in cost of

gas to the present "N-3" space-heating customers until after the present heating season.

Certain educational and eleemosynary institutions have objected strenuously to very substantial increases in cost of gas which would result from the rates proposed by the Atlanta Gas Light Company. These institutions have pointed out that they are supported, to a large extent, from limited funds and that any substantial increased costs would be an unreasonable burden which they are not in a position to absorb. It is the opinion of the Commission that the proposed increased cost of gas to charitable or privately supported orphanages or higher educational institutions is unreasonable, and that the present rate should be frozen in its application to these gas users, and this order will so provide.

The Atlanta Gas Light Company proposed rates for Federal housing projects which would increase the cost of gas to the low cost housing projects by \$9,421 per annum and reduce the cost to the Federal Public Housing Projects by \$1,358 per annum. The housing authorities objected to the substantial increase in cost of gas delivered to low-cost housing projects. At the present time gas is delivered to some 14 projects under special and individual contract agreements, and none of the rates contained therein are available for service at other locations. In order to avoid discrimination it is necessary that regulated public utilities have published rate schedules which are available to all actual and prospective consumers alike in accordance with the terms of the respective schedules. Furthermore one purpose of the present proceeding is to simplify and con-

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solidate rate schedules and remove special contract rates. In the opinion of the Commission, a published rate schedule should be established for low-cost housing projects in the same manner as published schedules are established for all other customers of the company. The Commission has sought to establish a rate which would not result in an increase to any of the housing projects but has found it impracticable to develop a rate which would not adversely affect some of the individual projects, however, the overall effect of the rate herein prescribed will not increase the revenue of the gas company. Although the new rate increases the cost of gas to projects located in Atlanta, the reduction to other projects completely offsets this increase. As a matter of fact the increase in Atlanta amounts to only about 2 $\frac{3}{4}$ cents per month per residential unit and this does not appear to be unreasonable, in view of the fact that this class of consumer is now receiving gas service at a much lesser cost than other residential consumers of the company.

With respect to rates applicable to the Federal Public Housing projects the Commission herein prescribes a revised rate application which will increase the company's proposed reduction to these consumers of \$1,358 per annum to \$5,600 per annum.

Among the other new rates under consideration is a special rate for mill villages proposed by the company. Prior to the present proceeding the Atlanta Company proposed such a special rate and on April 3, 1946, the Commission prescribed a new rate for this class of service. This rate was never made effective, however, since it became ap-

parent that all the rates of the Company would be soon revised as a result of the change in cost of purchased gas, and it appeared advisable to postpone the question which the Commission concluded to do. At the time the mill village rate was under consideration the Atlanta Company pointed out that mill village gas was classified as "General Service Gas" under their former purchase contract and as such this gas cost 30 cents per thousand cubic feet. The company pointed out further that where such gas was sold under the then existing industrial rates it was sold for less than its cost to the company. However, this situation has now changed, since the new purchase rates make no distinction as to ultimate use and it, therefore, appears unnecessary to establish a special mill village rate for application where gas is used by an industry and the mill village gas is merely a supplementary use. On the other hand there are a few locations where an industry wishes to contract for mill village gas without using any gas for industrial purposes and the proposed mill village rate will be authorized for such application.

The large use Interruptible Gas Service Rate proposed by the company states: "In the event the customer fails to comply with a curtailment order of the company reducing its hourly and daily use of gas, the quantity of firm use established for the customer shall be increased by that quantity of gas equal to the full volume of gas taken by the customer between the effective time of the curtailment order and the effective time of the next succeeding partial or complete restoration order. The firm use charge shall be paid for a period of twelve months even

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though the customer receives no gas." This is nothing more than a penalty charge which would be made for twelve consecutive months without entitling the customer to any additional firm gas, and furthermore, the penalty charge would be duplicated for each separate time a curtailment was not effected even though the gas delivered during succeeding curtailment periods did not exceed that rate of delivery for which a penalty had already been established. The establishment of a penalty charge against a customer for using service provided by a utility is highly unsatisfactory and this provision will be revoked by the Commission.

While testimony by the Commission's staff indicated that a rate reduction of some \$1,500,000 is indicated to be justified at the present time, the company countered with testimony as to substantially increased operating expenses which will be experienced immediately, consisting principally of increases in salaries and wages immediately facing the company, and the

adoption of a retirement plan for their employees. This, coupled with the uncertainty of the amount of reduction in cost of purchased gas which will actually be realized, indicates that a somewhat lesser reduction should be prescribed for a period of one year, to be reviewed and reconsidered by the Commission at the end of such period when actual experience will show the amount of reduction in cost of gas actually realized, as well as the effect of the interim rates herein prescribed. It is the opinion of the Commission that the rates of the Atlanta Gas Light Company should be reduced and the rates prescribed herein will effect savings to natural gas consumers in the amount of \$734,500 per annum. However, the rates prescribed in this order are established as interim rates only for a twelve months' period and on or before the expiration of twelve months the Commission may review this entire matter and prescribe different rates or terms and conditions based upon the experience gained in this test period.

BROTHERHOOD OF R.R. TRAINMEN v. VALLEY TRANSP. CO.
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Brotherhood of Railroad Trainmen, Blue
Mountain Lodge No. 694

v.

Valley Transportation Company

Complaint Docket No. 14192
March 3, 1947

MOTION by railroad company to dismiss complaint of union
against rate increase; denied.

Rates, § 641 — Complaint against increase — Proper parties to hearing.

A complaint may be brought against a rate increase by anyone having an interest in the subject matter, and if there is doubt as to the standing of a party making a complaint, a hearing should be ordered so that facts showing his interest may be presented.

(SIGGINS, Chairman, dissents.)

By the COMMISSION: This matter comes before us upon motion by the Valley Transportation Company, respondent, to strike or dismiss a complaint filed against it January 29, 1947, by the Brotherhood of Railroad Trainmen, Blue Mountain Lodge #694 (hereinafter called Brotherhood), for insufficiency in form and in substance. This motion is procedurally proper under Rule 37 of our Rules of Practice, providing as follows: "Any party deeming a pleading insufficient in form may file with the Commission a motion to strike. Any party deeming a pleading insufficient in substance, . . . may file with the Commission a motion to dismiss."

This motion was duly served upon complainant, but no answer has been filed.

The complaint sets forth the following allegations:

"Effective February 2, 1947, the Valley Transportation Company has served notice that they will increase fares by eliminating (1) The \$1 weekly passes, (2) the \$1.50 weekly passes.

"The elimination of the \$1 weekly pass will cause patrons of the Valley Transportation Company, who use this service seven days a week to have their fares increased 5 per cent riding the one fare zone only.

"The patrons of the Valley Transportation Company using this service six days a week in the 2-fare zone will have their transportation cost increased 20 per cent weekly.

"The patrons of the Valley Transportation Company using this service in the 2-fare zone seven days a week

PENNSYLVANIA PUBLIC UTILITY COMMISSION

will have their transportation cost increased 40 per cent.

"The Blue Mountain Lodge #694 is interested in this complaint due to the fact that several of their members use this transportation to travel to and from work and believe that the increase in rates unjust and unreasonable."

Section 1001 of the Public Utility Law, authorizes complaints against public utilities by those having an interest in the subject matter, and provides that the Commission, by regulation, may prescribe the form of such complaints.

In the case of Hegarty and Municipal Ownership Water League of Wyoming Valley v. Luzerne County Gas & E. Co. (1941) 23 Pa PUC 118, 119, the Commission dismissed the complaint of the Municipal Ownership Water League of Wyoming Valley, Inc., saying "The instant complaint does not aver that the league is a consumer of Luzerne County Gas and Electric Company, nor does it appear that the league has any other interest in the rates and charges of the Company."

In Yoder and Pennsylvania Public Ownership League v. Belleville Water Co. (1940) 21 PA PUC 412, the Commission held that the question of whether or not the complainants had

such an interest, as to make them proper parties, was one of fact, and the Commission received testimony on that point.

In the instant case, it is apparent that the Brotherhood, as such, can hardly be considered a patron or customer of the respondent. It is likewise true that the Commission's Rules of Practice (rules 7, 26) require that a complaint be verified by an authorized officer of a party complainant, if a corporation or association, and execution by the Brotherhood secretary of an individual affidavit form does not comply with our rules for a corporate or association complaint. In our opinion, however, there are sufficient averments in the complaint to indicate a possible interest on the part of the Brotherhood acting in a representative capacity, and, as was done in the Yoder Case, *supra*, the matter should be set down for hearing at which the Brotherhood will have an opportunity to place of record facts showing the interest in the subject matter essential under § 1001 of the Public Utility Law; therefore,

It is *ordered*: That the motion to dismiss the complaint be and is hereby refused, and that hearing be scheduled in due course.

The Chairman voted in the negative.



Industrial Progress

A digest of information on new construction by privately managed utilities; similar information relating to government owned utilities; news concerning products, supplies and services offered by manufacturers; also notices of changes in personnel.



\$16,800,000 Program Started by Wisconsin Electric Power

WISCONSIN ELECTRIC POWER COMPANY has begun a construction program involving an estimated expenditure of \$16,800,000 for immediate expansion and improvement of its service facilities and has under way engineering studies designed to formulate a 10 to 15 year program of power plant additions.

In the current program \$12,600,000 is the cost estimate for 1947 work, subject to availability of equipment, materials, and manpower, and \$4,200,000 would be required in 1948 to complete some of the larger projects. Main item in this program is completion of the third unit at the Port Washington power plant.

Other items in the budget are substantial transmission and distribution line extensions and improvements.

Construction of eight new substations and expansion and improvement of others are also projected.

Among general improvements will be establishment of a new electric distribution headquarters building, purchase of \$272,000 worth of trucks and automobiles, and rehabilitation and modernization of the all-electric home and merchandise sales quarters in the Public Service building.

New Merchandising Manager Named by Hotpoint

EDWARD R. TAYLOR has been appointed merchandising manager, Hotpoint Inc., Chicago, L. C. Truesdell, vice president in charge of marketing, announced recently. Mr. Taylor comes to Hotpoint from Zenith Radio Company.

In his newly-created position, Mr. Taylor will direct all of the company's advertising, sales promotion, sales planning, sales training, and kitchen planning activities.

Load-center Power Distribution Added to G-E Program

LOAD-CENTER power distribution has been added to the list of subjects in the General Electric Company's "More Power to America" program. This new offering, which is aimed at the modernization of present power-distribution systems as well as the practical and efficient engineering of new installations, includes a 64-page manual "Load-Center Power Distribution," a booklet "What Load-Center Power Distribution Can Do For You," and a 30-

minute sound slidefilm in full color entitled "Modern Industrial Power Distribution."

This is a long-range program for power sales engineers designed to promote more efficient utilization of present available electric power through the use of load-center power distribution. Another purpose is to inspire the use of added power by showing how this method of distribution can simplify the problem of meeting future power demands. It encourages the placing of power where it is needed, and stimulates greater safety, flexibility, and dependability, as well as low-cost installation and maintenance. It shows how benefits to utility and user alike can result from use of load-center power distribution.

Copies of the film and supplies of the accompanying literature may be purchased from the nearest G-E office.

Louisiana Pwr. & Lt. Program Hits All-time High

THE 1947 Construction Budget of Louisiana Power & Light Company involves an all-time high of \$4,200,000.

The bulk of this year's expenditures will go to the electric department with \$3,790,000 being allocated to different plants in the following order: Production plant, \$71,000; transmission plant, \$1,118,000; distribution plant, \$2,340,000; general plant, \$260,000. The gas department will receive \$290,000 and the remaining \$120,000 will go to the transportation department.

\$9,000,000 Program Proposed

KANSAS CITY POWER & LIGHT COMPANY has a 1947 construction budget calling for plant expenditures of about \$9,000,000, of which \$2,200,000 will go for power production facilities, \$3,000,000 for transmission lines, and \$3,600,000 for distribution facilities.

Approximately \$7,500,000 construction is expected to be completed this year. This will comprise half of the amount budgeted for the year and \$3,000,000 of work in progress carried over from 1946.

New Plastic Protective Covering

A FOUR-PAGE, two-color pamphlet giving details of and uses for Koppers Bituplastic, a new plastic protective coating that waterproofs and vapor seals, has been issued by Wailes-Dove Hermiston Corporation, Westfield, New Jersey. Special adaptability for use of the protective coating on above ground tanks, gas holders, railings, fire escapes, orna-

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mental iron work, gutters, storage tanks and towers, cooling towers, metal buildings, roofs and its ability to waterproof and dampproof any wall surface of metal, masonry or concrete are listed. Details regarding its quick drying, fire retardancy, ability to withstand temperature extremes, and applicability with brush or spray are also provided together with data on types of Bituplastic and special recommendations for use of each type.

Hydrauger Issues Bulletin on Earth-boring Machines

A NEWLY issued 16-page bulletin is announced by the Hydrauger Corporation, Ltd., of San Francisco. According to E. D. Rogers, manager of the concern, the time and labor saving advantages of these horizontal earth boring machines seem more valuable than at any previous time. The three new compressed-air operated models 10-A, L-2, and LHH-2 (a radical new, hand-held model) are fully covered in the new bulletin.

\$20,000,000 Program Proposed By Braddock Light & Power

THE Braddock Light & Power Company will break ground early in June on a \$20,000,000 expansion project in Alexandria, Virginia, to provide more power for the Washington area.

James H. Ferry, executive vice president of the Potomac Electric Power Company and vice president of the Braddock Company, a Pepco subsidiary which operates in nearby Virginia, announced the construction plans.

About \$15,000,000 of the total will be used for the erection of two 80,000-kilowatt generating units, transmission lines, coal storage, railroad tracks, and equipment for grading, coal transmission, and ash handling. The remainder will be used for five to six miles of underground lines which will carry 66,000 volts from Alexandria to Washington.

Georgia Power Company Has Large Expansion Program

GEORGIA POWER COMPANY is now in the midst of a three-year \$52,000,000 expansion program. It is expected that expenditures for the two years following that program will be at not less than the present rate, or slightly more than \$17,000,000 a year, which indicates an \$85,000,000 program for five years.

Cochrane Bulletin

A REVISED edition of Cochrane publication A 4021 describing carbonaceous zeolite water conditioning equipment for softening boiler feed and industrial process waters has just been printed. Seven typical installations are illustrated and a number of application flow diagrams are included. Curves, tables, and the various chemical reactions involved complete the technical data.

Copies of this 16-page bulletin may be ob-

tained by writing Cochrane Corporation, 17th street & Allegheny avenue, Philadelphia 32, Pennsylvania.

Bendix Holds School for Home Service Personnel

HOME service personnel of 12 utilities convened for a three-day school in Bendix Home Laundry Institute April 29th. Purpose of the utility home service forum, which was directed by Miss Margaret B. Doughty, institute director, was to acquaint the women with automatic home laundering techniques, laundry planning, fundamentals of laundering, and the load-building potentialities of automatic equipment.

Speakers included Judson S. Sayre, president of Bendix Home Appliances, Inc.; Miss Doughty; M. R. Rodger, utility sales manager; Walter J. Daily, director of advertising; Mary Belle Burnett, Cincinnati Gas & Electric Company; Kenneth C. Randolph, chief chemist; A. P. Smith, national service manager, and Grant Layng, manager of the builders division.

New England Pwr. Association Plans Large Expansion

THE 1947 construction program of the New England Power Association probably will involve an expenditure of upward of \$20,000,000, according to a recent announcement.

\$8,700,000 Program Proposed

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE proposes to spend \$8,700,000 for property expansion this year and an additional \$23,850,000 in the succeeding half decade. Generating facilities account for \$6,300,000 of this year's program and for \$11,600,000 of the additional expenditure contemplated for the following five years.

Sylvania Announces Winners of Design Competition

WINNERS of the four major awards in Sylvania Electric's third annual fluorescent fixture design competition, devoted this year to improved schoolroom lighting, were presented with \$1,100 in cash prizes recently by Robert H. Bishop, vice president in charge of sales for the company.

A streamlined, functional, ceiling type fixture which uses two 40-watt fluorescent lamps and is constructed to distribute the light downward and forward, won the first prize of \$500 for Lynn L. Sweetland, Jr., of the New York State Electric & Gas Corporation, Binghamton, New York. Gerald E. Parks, of the Metropolitan Edison Company, Reading, Pennsylvania, won second prize and \$300 for his design of a four-lamp, fully louvered fixture which directs light outward from the sides as well as downward; Robert M. Francis, Public Service Company of Northern Illinois, Joliet, Ill., was

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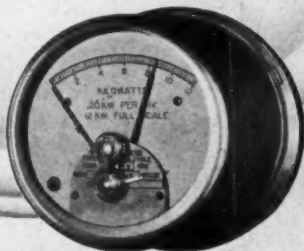


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awarded third prize of \$200 for his fixture utilizing three 40-watt fluorescent lamps and incorporating a clear plastic top shield which permits a complete spill of indirect light from the ceiling and allows for ease of maintenance; and Warren W. Weiss, Pacific Gas & Electric Company of San Francisco, Calif., received fourth prize and \$100 for a fixture containing two 100-watt fluorescent lamps, which may be utilized for blackboard lighting by means of a rotating shield on either side.

Limited to engineers of public and private utilities, this year's contest, which opened November 30th and closed on March 15th, drew over 300 entries from all parts of the country. Judging was based on appearance, installation flexibility, maintenance features, lighting layout and light distribution of the designs submitted, and a minimum of 40 footcandles on the desk and 30 footcandles on the chalkboard was required.

Plans \$3,000,000 Expansion

KANSAS GAS & ELECTRIC COMPANY now has in the designing stage a 30,000-kw. extension to its Ripley steam plant. Construction is to start this summer, and the new unit is to be ready in October, 1948. Included in the property expansion program is the extension of rural service to serve farms in the area as fast as material is available. This part of the program is expected to be finished early next year.

Construction outlays this year will be close to \$3,000,000.

AGA Appointment

H. CARL WOLF, managing director, announces the appointment of Jean Clarke Thompson to the publicity bureau of the American Gas Association to direct all domestic gas equipment publicity and services covering the use of gas equipment in homes for national magazines, women's pages of newspapers, and women's radio programs.

Construction Loans Announced

CONSTRUCTION loans — chiefly for distribution lines, system improvements or new or additional generating capacity—recently were made to the following enterprises by the Rural Electrification Administration:

Forsyth County Electric Membership Corporation, Cumming, Ga., \$65,000.

Sekan Electric Cooperative Association, Inc., Girard, Kans., \$480,000.

Santee Electric Cooperative, Inc., Kingstree, S. C., \$280,000.

Coastal Electric Cooperative, Inc., Walterboro, S. C., \$235,000.

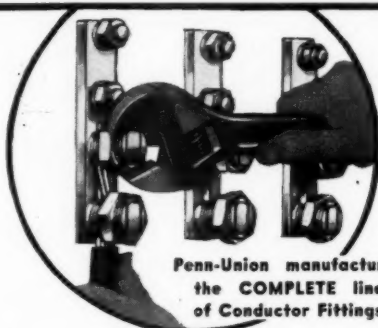
Mid-Carolina Electric Cooperative, Inc., Lexington, S. C., \$278,000.

Nueces Electric Cooperative, Inc., Robstown, Tex., \$50,000.

Grand Valley Rural Power Lines, Inc., Grand Junction, Colorado, \$125,000.

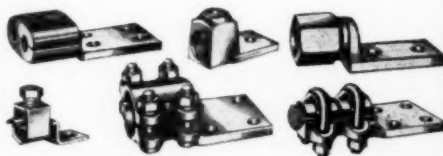
K.P.R. Electric Membership Corporation, Ainsworth, Neb., \$697,000.

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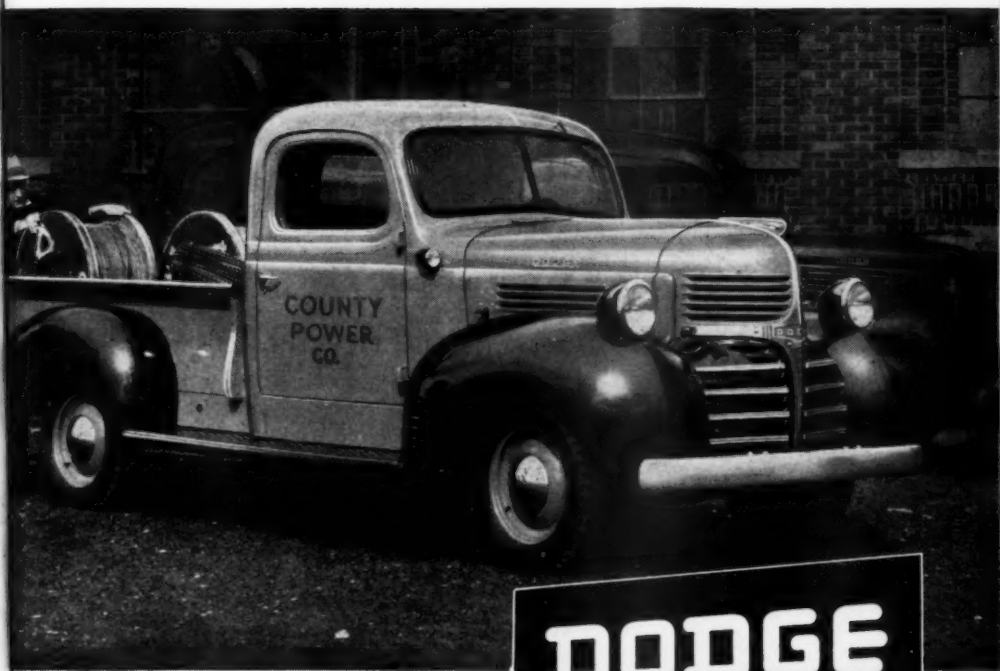
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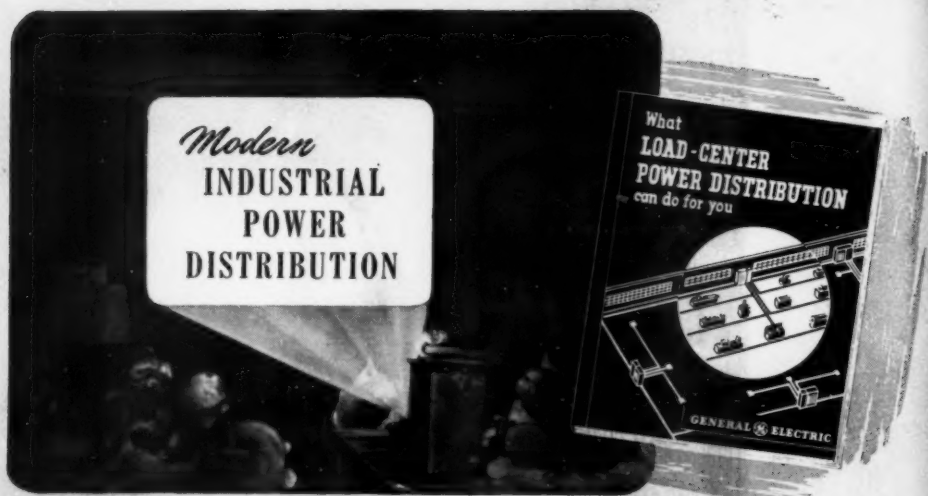
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The program has been designed to aid in selling the idea of modern industrial power distribution—one of the first steps that must be taken in providing for the most effective utilization of electric service. It consists of three parts: (1) A manual for the power sales engineer, distribution engineer, and plant engineer with comprehensive technical data on load-center distribution. (2) A full-color sound slide film that will act as the focal point for successful sales meetings. (3) A booklet, "What Load-center Power Distribution Can Do For You." The manual also contains valuable ideas for the preparation and presentation of the program.

A VITAL LINK IN ELECTRICAL POWER DISTRIBUTION

Vast sums of money have been spent in developing electrical generating plants and distribution systems to their present high level of efficiency and performance. This has been most important in bringing more power to America. However, it must not be forgotten that all of the electrical power used in American industry must get to the job via the electrical systems owned and maintained by the consumers within their own plants. It is this link in the power distribution chain, more than any other, that needs attention if American industry is to continue its march to more goods for more people at less cost.

Your local General Electric representative will be glad to give you further information on how you can present this program to your power sales engineers and to industrial groups in your area. *Apparatus Dept., General Electric Co., Schenectady 5, N. Y.*

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